The Director of Central Intelligence

Washington, D.C. 20505

Executive Registry
77-1334/A

3 JUN 1977

Dear Gene,

Sorry to take so long to answer your letter but I've been juggling my long-range schedule to accommodate your request to address the Council. I think I've now succeeded and can give you a firm commitment for the 5th of December. My office will be in touch with your staff to coordinate details.

Look forward to chatting with you when next we meet. In the meantime, all the best.

Yours,

Stan

STANSFIELD TURNER

Mr. Eugene Bradley
President, International Management
and Development Institute
Suite 905, 2600 Virginia Avenue, N.W.
Washington, D.C. 20037

P.S. Hope to see you soon — Head is beginning to come up from under water —

STAT

cy to: PAO

# International Management and Development Institute



Watergate Office Building • Suite 905 • 2600 Virginia
Washington, D.C. 20037 • Tel. (202) 337-1022 • Telex: IMDI 64469

Executive Registry
77-1334

May 6, 1977



Admiral Stansfield Turner, U.S.N.
Director of Central Intelligence
Washington, D.C. 20505

Dear Stan:

I am just back in Washington after 35 days of international travel, and I shall be leaving again shortly for Mexico City. The purpose of this travelling is to either interview or secure statements from Chiefs of State or Heads of Government for our Top Management Report series and for The Christian Science Monitor. As an aside, Terry and I had a most interesting interview with NATO Secretary General Luns and a fine session (not for publication) with Al Haig.

Before departing the city again, I would like to renew with you a conversation you and I had before your confirmation.

You may recall that I invited you to be our honored dinner speaker for the Joint Council Quarterly Meeting of our corporate, government, and diplomatic associates which will be convened on Capitol Hill this next month. You advised at that time that in principle you would be pleased to be a dinner speaker at one of our Quarterly sessions, but that June was too soon -- you would like a six-month reprieve -- and that we should invite you again.

We are now making plans for our September and December Quarterly Meetings and would be honored to have you as our dinner speaker for either of these dinner meetings -- either Monday, September 12, or December 5. Our preference would be for September 12, if your calendar is clear.

The afternoon speakers for September 12 include Austin Kiplinger (Editor, The Kiplinger Washington Letter) as Chairman, Bert Lance from OMB, and Fred Bergsten from Treasury.

By way of background on our Joint Council Quarterly Meetings, I am enclosing:

1. The agenda from our most recent Joint Council Quarterly Meeting -- convened in the U.S. Capitol on March 7 -- plus the agenda from the June 6 session to be held in the Rayburn House Office Building;

2. The 1976-77 Report to IMDI Board and Council Members, which on page 4, lists the corporate, government, and diplomatic associates invited to our Joint Council Quarterly Meetings; and

3. Our current Top Management Report, co-published with the State Department, indicating the educational thrust of our Institute.

Stan, for our planning, we would be most grateful if you could let us know if you can be with us for either the September or December session. Of course, Pat is most cordially invited. She might be interested to know that wives of all of our Joint Councils are invited to these dinner sessions.

As a final note, Terry and I had an absolutely magnificent experience in our series of interviews in 8 countries. One of the very nice advantages in returning was seeing the staff and friends and reviewing correspondence, which included the color photos of your swearing-in and luncheon.

Thank you very much from both of us.

With all best wishes.

Cordially,

Gene

Gene E. Bradley
President

P.S. When we next see you, we will brief you on the superb hour we spent with Al Haig, who is now a member of our Board of Advisers -- and one of your greatest admirers and boosters. What a guy!

Gene

# International Management and Development Institute

JOINT COUNCIL QUARTERLY MEETING

Date: June 6, 1977
Place: Rayburn House Office Building, Room 2168A
(Entrance: Independence Avenue)
Theme: "DIRECTIONS OF THE NEW ADMINISTRATION AND THE NEW CONGRESS"

| | | |
|---|---|---|
| | Host . . . . . . . . . . . . . | Hon. BARBER B. CONABLE, JR. (R-N.Y.)<br>U.S. House of Representatives<br>Ranking Minority Member<br>House Ways and Means Committee |
| 2:30 | Registration | |
| 3:00 | Chairman. . . . . . . . . . . . | Hon. FRANK PACE, JR.<br>President<br>International Executive Service Corps |
| 3:10 | "Views from the Congressional Budget Office" | Dr. ALICE M. RIVLIN<br>Director<br>Congressional Budget Office |
| 3:25 | "Views from the Ways and Means Committee" | Hon. AL ULLMAN (D-ORE.)<br>U.S. House of Representatives<br>Chairman, Ways and Means Committee |
| 3:40 | Discussion | |
| 4:10 | Break | |
| 4:30 | "Views from the White House" | Hon. LYLE E. GRAMLEY<br>Member of the President's<br>Council of Economic Advisers |
| 4:45 | Discussion | |
| 5:05 | "Discussion of International Financial and Monetary Affairs" | WILLIAM B. DALE<br>Deputy Managing Director<br>International Monetary Fund |
| 5:20 | "Discussion of U.S. Energy Policies" | ROBERT D. HORMATS<br>Senior Officer, International Economic Affairs<br>National Security Council<br>The White House |
| 5:35 | Discussion | |
| 6:15 | Adjourn afternoon session | |
| 6:30 | Reception: For corporate, government, and diplomatic council members, wives, and special guests; The Banquet Room (B-338), Rayburn House Office Building | |
| 7:00 | Dinner<br>Remarks: "New Energy Policies and Approaches -- and their Impact on the U.S. and World Economy" | Dr. HERMAN KAHN<br>Director<br>The Hudson Institute |
| 9:00 | Adjourn | |

June 6 Joint Council Quarterly Meeting

STEERING COMMITTEE MEMBERS

Marion H. Antonini, President, Xerox Latinamerican Group
R.H. Hall, Vice President, Controller, Colgate-Palmolive International
J. Dudley Haupt, Manager, Government Affairs, St. Regis Paper Company
Robert L. James, Vice President, Washington Representative, Bank of America
Richard H. Kaufman, Manager - International Forecasting, General Electric Company
Ruddick C. Lawrence, Consultant, Continental Oil Company
William R. Miller, Executive Vice President, Bristol-Myers Company
Donald J. Povejsil, Vice President, Corporate Planning, Westinghouse Electric Corporation
Robert F. Schnoes, Senior Vice President, Operations, Dresser Industries, Inc.
Julian M. Sobin, Senior Vice President and Director of International Development, International Minerals and Chemicals Corporation
Thomas S. Thompson, Vice President, Public Affairs, The Continental Group, Inc.
Edward G. Watkins, President and Chief Executive Officer, Simplex Time Recorder Co.
Stanley M. Zolnier, President, Troy Plastics Corporation

# International Management and Development Institute

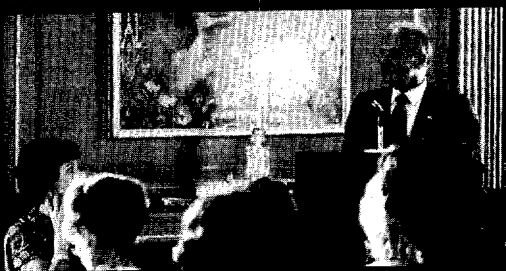
JOINT COUNCIL QUARTERLY MEETING
Monday, March 7, 1977
U.S. Capitol Building (Room S-207)
(Entrance: Senate Door, East Side of Capitol)

Theme: "IMPROVING GOVERNMENT-BUSINESS RELATIONS IN INTERNATIONAL ECONOMIC AFFAIRS"

The March 7 Joint Council Quarterly Meeting will focus on the recommendations summarized in the White House/IMDI Report on "U.S. International Economic Policies."

| | | |
|---|---|---|
| 3:00 | Host: . . . . . . . . . . . . . | Hon. JACOB K. JAVITS, U.S. Senator (R-NY) |
| 3:15 | Discussion of Questions 1 and 2 of White House/IMDI Report (pages 8 and 9): "How effective is present government-business cooperation -- in terms of both coordinating policies here at home and acting as a team overseas?" "What are the most important problems that prevent more effective cooperation?" | Dr. ANTONIE T. KNOPPERS<br>Former Vice Chairman<br>Merck & Co. |
| 3:35 | Roundtable discussion | NEIL J. McMULLEN<br>Assistant Director, International Division<br>National Planning Association |
| 4:00 | Discussion of Question 3 (pages 10 and 11): "What structural or institutional changes should the U.S. Government make to improve the liaison?" | Hon. FREDERICK L. WEBBER<br>Vice President<br>Scott Paper Company |
| 4:20 | Roundtable discussion | Hon. HERBERT STEIN<br>Professor, University of Virginia<br>Former CEA Chairman |
| 4:50 | Break | |
| 5:10 | Discussion of Question 4 (pages 12 and 13): "What can be done by individual companies -- or by business-industry associations -- to improve the liaison?" | Hon. LAWRENCE C. McQUADE<br>Vice President<br>W.R. Grace & Co. |
| 5:30 | Roundtable discussion | ALBERT T. SOMMERS<br>Senior Vice President and Chief Economist<br>The Conference Board |
| 6:00 | Busses depart for the International Club | |
| 6:30 | Reception and Dinner --<br>International Club<br>The Wadsworth Room<br>1800 K Street, N.W.<br>(Please use 18th Street Entrance) | Dinner Speaker:<br>ALBERT T. SOMMERS<br>Senior Vice President and Chief Economist<br>The Conference Board |
| 9:00 | Adjourn | |

Joint Quarterly Meeting—World Bank: Austin Kiplinger (right) leads discussions on impact of U.S. elections on business.

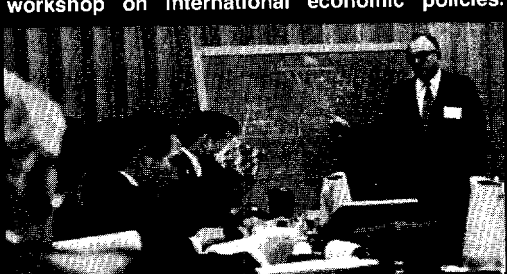


Quarterly Women's Program—French Embassy: H. E. Jacques Kosciusko-Morizet, host; focus—international press views of U.S. elections.

Joint Council Dinner—Pan American Union Bldg.: OAS Secy. Gen. A. J. L. Orfila addresses Council Members and wives on "Interdependence."


Washington Briefing Series—Cannon House Office Bldg.: Senators Claiborne Pell and Ted Stevens discuss legislation affecting business.

White House Conference—Executive Office Bldg.: Bank of America's Walter Hoadley (left) leads workshop on international economic policies.



How to Work in Washington: Brookings Institution's Walter Held describes the decision-making process in the Federal Government.

***REPORT TO IMDI BOARD AND COUNCIL MEMBERS***

# INTERNATIONAL MANAGEMENT AND DEVELOPMENT INSTITUTE

## Highlights of 1976
## Priorities for 1977

In reviewing the progress of our five-part educational program during 1976, we acknowledge with appreciation the personal participation and strong support of our Board members and diplomatic, corporate, and government associates. It is a pleasure to report IMDI's most significant year to date.

Highlights of 1976 include:

1. **Government-Business Programs:**
   - A top management conference, co-sponsored by IMDI and the White House Council on International Economic Policy, on "U.S. International Economic Policies."
   - Two courses—for Washington embassy officials and international business executives, on "How to Work in Washington."
   - An international investment seminar—under State Department auspices—for foreign officials visiting the U.S.
   - A Foreign Service Institute seminar—for host national commercial specialists in U.S. embassies—on strengthening government-business cooperation.
2. **National Educational Program:**
   - Weekly newspaper series—13 articles from our *Top Management Report* on "Corporate Citizenship in the Global Community," reprinted in *The Christian Science Monitor*.
   - University distribution of IMDI's reports on international corporate citizenship to 1,000 U.S. professors of international business, for classroom use.
3. **Washington Policy Programs:**
   - Joint Council Quarterly Meetings—for IMDI's diplomatic, corporate, and government associates to examine key international economic issues.
   - Quarterly Women's Programs—for the wives of IMDI's Joint Council members, convened in the French Embassy, White House Family Theatre, Russell Senate Office Building, and Kennedy Center.
   - Washington Briefing Series—nine monthly sessions (October through June) on the issues of greatest immediate concern to our corporate and government associates.
   - Four Conferences for Corporation Executives on business opportunities and prospects overseas—focusing on Asia, the Middle East, Latin America, and Europe; jointly sponsored with The Johns Hopkins School of Advanced International Studies.
4. **International Network:**
   - Expansion of IMDI's international network—which now includes 40 leading graduate schools and management centers in the U.S., Europe, the Middle East, Africa, Asia, and Latin America—to advance the cause of international government-business cooperation.
   - Membership in CIOS—World Council of Management.

**Joint Quarterly Meeting—World Bank: Austin Kiplinger (right) leads discussions on impact of U.S. elections on business.**

**Quarterly Women's Program—French Embassy: H. E. Jacques Kosciusko-Morizet, host; focus—international press views of U.S. elections.**

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   - Membership in CIOS—World Council of Management.

5. **Publishing:**

- Two *Top Management Reports*, published in cooperation with the Department of State's Bureau of Educational and Cultural Affairs; designed to improve the climate in which international diplomacy and business are conducted. (For guest authors, see page 3.)
- Quarterly reviews on *International Corporate Citizenship*—four-page newsletter on current corporate literature, research, articles, books, and seminars—co-published with the State Department.
- A special report prepared for the Administration outlining recommendations on U.S. international economic policies and strengthening government-business cooperation; based on the top management conference co-sponsored by IMDI and The White House.
- A motion picture/videotape on the role of multinationals in the socioeconomic development of Iran; featuring a filmed interview with the Shah.
- A Communications Handbook for American Chambers of Commerce overseas—for conducting programs on the role and responsibilities of MNCs in host countries; co-published with the Chamber of Commerce of the U.S. and the Association of American Chambers of Commerce in Latin America.

Participating in the above 1976 meetings, briefings, and conferences were some 1,500 corporate, government, and diplomatic officials from the U.S. and 30 other countries. IMDI's publications reached selected audiences in over 100 countries.

**Priorities for 1977**

During 1977, we shall continue the educational programs outlined above. Special attention will be devoted to extending these programs to include members of the new Administration and Congress, as well as government leaders in overseas capitals who share a common interest in forging closer ties of government-business understanding and working relationships.

At the heart of IMDI's five-part Corporate Associate Program is our Strategic Planning Council, composed of 60 U.S. companies. The plan is to expand this into a worldwide "Council of 100," to include senior executives from 40 major corporations headquartered in other nations. We are pleased to report that four such companies are already represented on our roster (see page 4) and that Fiat President Giovanni Agnelli is now a member of our international Board of Advisors.

Our quarterly Joint Council Meetings and monthly Washington Briefing Series will continue to keep our associates abreast of the Washington and international developments that will most affect their business. As in the past, these sessions will be convened in the Brookings Institution, Commerce, Treasury, and State Departments, White House, Eximbank, World Bank, Federal Energy Administration, Congress, Embassy of Iran, and the United Nations in New York.

"How to Work in Washington"—first designed for Washington's diplomatic community and then expanded to include U.S. Government and corporate officials—will be repeated in 1977. This orientation course provides an understanding of the structure, workings, and interaction of the various decision centers of the Federal Government. One Asian ministerial official commented, "I feel that I have learned more in these three days than I could have learned on my own in three years."

In the field of publishing, our two 1977 *Top Management Reports* will include interviews with heads of government from selected nations representing all continents, as well as statements from chief executives of leading international corporations. The focus of the first *Report* will be "interdependence"; the theme for the second will be what governments need from business and what business needs from governments in order to achieve common development goals. We shall continue the quarterly newsletters on international corporate citizenship and our publications on international economic policies and government-business relationships.

We look forward with pleasure to working with our Board and Council members, guest faculties and authors, and international associates in fulfillment of IMDI's educational mission: "to build closer bonds of unity among men and nations through better management practices and international cooperation."

Dean Rusk

**Dean Rusk,** Honorary Chairman

Gene Bradley

**Gene E. Bradley,** President

## IMDI in Brief

The INTERNATIONAL MANAGEMENT AND DEVELOPMENT INSTITUTE (IMDI) is a nonprofit, educational institute headquartered in Washington, D.C. Its prime purpose is to strengthen corporate management teams internationally through executive seminars, management training, strategic planning, government-business programs, and publishing efforts on the international corporation. IMDI is associated with a growing network of cooperating institutions in this country and overseas.

# ROSTER OF JOINT COUNCILS

## Corporate Strategic Planning Council

Alcan Aluminium Limited
*Eric A. Trigg, Exec. V.P.*
Allied Chemical Corporation
*Hon. John T. Connor, Chairman*
American Can Company
*Francis J. Connor, Sr. V.P., Int'l*
Arthur Andersen & Co.
*Clyde E. Dickey, Jr., Partner*
Bank of America
*Walter E. Hoadley, Exec. V.P.*
Battelle Memorial Institute
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Bechtel Corporation
*R. Eric Miller, V.P.*
Bendix International
*Stanley M. Cleveland, Pres.*
Bristol-Myers International
*Dr. Herman Sokol, Chairman*
Campbell Soup Company
*Edwin J. Foltz, V.P.-Corp. Rels.*
The Carborundum Company
*F.J. Ross, Exec. V.P. & COO*
Caterpillar Tractor Co.
*Byron DeHaan, Public Affrs. Mgr.*
Chrysler Corporation
*Gwain H. Gillespie, Exec. V.P.-Fin.*
Colgate-Palmolive International
*Philip E. Beekman, President*
Collins Radio Group-Rockwell International Corp.
*Thomas A. Campobasso, V.P. & Gen. Mgr.*
COMSAT General Corporation
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The Continental Group, Inc.
*Thomas S. Thompson, V.P., Public Affrs.*
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*James O. Lindberg, Corp. Group V.P., Public Affairs & Materiel Support*
Deere & Company
*Wallace H. Lloyd, Jr., Exec. Asst. & Mgr.*
Dresser Industries, Inc.
*Robert F. Schnoes, Sr. V.P., Operations*
Dynalectron Corporation
*Charles G. Gulledge, Pres. & CEO*
Eastman Kodak Company
*Wylie S. Robson, Exec. V.P.*
Eaton Corporation
*Melvin C. Arnold, Exec. V.P., Law & Corp. Relations*
Ernst & Ernst
*LeRoy J. Herbert, Partner*
Esmark, Inc.
*James L. Morrison, Asst. Controller-Director of Taxes*
Exxon Corporation
*Dr. Donald L. Guertin, Sr. Planning Advisor, Public Affairs Department*
Ford Motor Company
*James R. Golden, Dir., Int'l Governmental Affairs Staff*
The Foxboro Company
*Ralph Hayden, Jr., Chmn. of the Bd.*
General Electric Company
*Clifford H. Springer, Mgr., Strategy Planning, Int'l & Canadian Group*
General Motors Corporation
*Richard L. Terrell, Vice Chmn. of the Bd.*
The Gillette Company
*Colman M. Mockler, Jr., Chairman & CEO*
W.R. Grace & Co.
*Francis D. Flanagan, V.P.*
Gulf Oil Corporation
*Dr. Alexander Lewis, Jr., Pres., Gulf Oil Foundation*
IBM Europe, S.A.
*Jacques G. Maisonrouge, Pres.*
IMC Chemical Group
*Julian M. Sobin, Exec. V.P.*
International Multifoods Corporation
*William G. Phillips, Chairman & CEO*
The International Nickel Company, Inc.
*Alfred P. Statham, V.P.*
International Paper Company
*James C. Cotting, V.P. & Controller*
Jostens, Inc.
*H. William Lurton, Chmn. & Pres.*
LAFARGE S.A.
*Patrick Nodé-Langlois, Sr. V.P.*
3M Company
*James A. Thwaits, Pres., Int'l Operations*
Merck & Co., Inc.
*Irwin Goldman, Corp. Dir. of Planning*
Miles Laboratories, Inc.
*Thomas C. Black, V.P., Int'l Operations*
Newsweek Magazine
*Allen Chellas, V.P. & Dir. of Public Affrs.*
PPG Industries, Inc.
*David D. Ogilvie, V.P., Corp. Develop.*
PepsiCo, Inc.
*Cartha D. DeLoach, V.P., Corp. Affrs.*
Pfizer, Inc.
*Edward Littlejohn, V.P., Public Affrs.*
Pullman Swindell
*Donald E. Stingel, President*
Riggs National Bank
*Vincent C. Burke, Jr., Chmn. of the Bd.*
Schering-Plough Corporation
*Ralph W. Golby, V.P., Corp. Rels.*
Scott Paper Company
*James D. Stocker, V.P. & Group Exec.*
Siemens Corporation
*Dr. Otto J. Dax, President*
Simplex Time Recorder Co.
*Edward G. Watkins, President & CEO*
The Singer Company
*Donald G. Robbins, Jr., Sr. V.P.*
SmithKline Corporation
*Robert L. Dean, V.P., Govt. & Public Policy*
St. Regis Paper Company
*George J. Kneeland, Chairman*
Sterling Products International, Inc.
*Thomas R. Serpa, Pres. & CEO*
UOP Inc.
*Robert M. Baratta, V.P.-Administration*
Union Carbide Corporation
*A.S. Hart, V.P., External Affairs*
Vought Corporation
*Lt. General E.M. Reyno, V.P., Int'l Oper.*
Warnaco International Inc.
*James P. Gillies, President*
Westinghouse Electric Corporation
*Dr. Patrick J. Lynch, V.P., Bus. Planning*
Xerox Corporation
*Marion H. Antonini, Pres., Latinamerican Group*

## Washington Policy Council

**Government:**

Executive Branch—During 1976, policy officials from the following Departments and Agencies were represented on IMDI's Washington Policy Council:

Executive Office of the President
*Council of Economic Advisers*
*National Security Council*
*Council on Int'l Economic Policy*
*Department of State*
*Bureau of Economic & Business Affrs.*
*Policy Planning Staff*
Department of the Treasury
*Office of the Secretary-Economic Policy*
*Office of the Secretary-Int'l Affairs*
Department of the Interior
*Office of the Secretary-Energy & Minerals*
Department of Commerce
*Bureau of International Economic Policy and Research*
Department of Labor
*Office of the Secretary-Int'l Affairs*
Department of Defense
*Office of the Secretary*
Federal Energy Administration

Other Governmental & International:
Hon. John B. Anderson
*U.S. House of Representatives*
Hon. Barber B. Conable, Jr.
*U.S. House of Representatives*
Charles A. Cooper
*U.S. Exec. Dir., International Bank for Reconstruction & Development*
Hon. William S. Gaud
*Consultant, World Bank Group*
Hon. Jacob K. Javits
*U.S. Senate*
Hon. Marshall T. Mays
*Pres., Overseas Private Investment Corp.*
Hon. Abner J. Mikva
*U.S. House of Representatives*
R. B. J. Richards
*Gen. Counsel, International Finance Corporation*
Hon. Walter C. Sauer
*Special Asst. to the Bd. of Dir., Export-Import Bank of the U.S.*
Hon. Henry C. Wallich
*Member, Fed. Reserve Board of Governors*
Hon. Al Ullman
*U.S. House of Representatives*

**Non-Government:**

Hon. Theodore C. Achilles
*V. Chmn., Atlantic Council of the U.S.*
Hon. Willis C. Armstrong
*U.S. Council, Int'l Chamber of Commerce*
John L. Caldwell
*Dir., Center for Int'l Bus. Rels., Chamber of Commerce of the U.S.*
W. Gilbert Carter
*Senior Partner, Nicholson & Carter*
Roscoe Drummond
*Columnist*
Hon. William J. Fellner
*Res. Scholar, American Enterprise Inst.*
Hon. Henry H. Fowler
*Partner, Goldman Sachs & Co.*
Lawrence A. Fox
*V.P. & Mgr., Int'l Econ. Affrs. Dept., NAM*
*Dr. Theodore Geiger*
*Dir. of Int'l Studies, Nat'l Plng. Assn.*
James P. Grant
*Pres., Overseas Development Council*
Dr. Carl F. Hawver
*Exec. V.P., Nat'l Consumer Finance Assn.*
Walter G. Held
*Dir., Adv. Study Program, The Brookings Institution*
S. Peter Karlow
*Consultant to Business on Int'l Affrs.*
RAdm. William C. Mott, USN (Ret.)
*Exec. V.P., U.S. Independent Tel. Assn.*
Hon. Frederick E. Nolting, Jr.
*Dir., W.B. Miller Center of Public Affrs., The University of Virginia*
George J. Pantos
*Partner, Vedder, Price, Kaufman, Kammholz & Day*
Hon. Christopher H. Phillips
*Pres., Nat'l Council for US-China Trade*
Hon. Eugene V. Rostow
*Professor, Yale Univ. Law School*
Walter A. Slowinski
*Resident Partner, Baker & McKenzie*
Kenneth M. Spang
*V.P., Citibank*
Hon. Philip H. Trezise
*Senior Fellow, The Brookings Institution*
Maj. Gen. Hamilton A. Twitchell, USA (Ret.)
*Consultant*
Hon. Charls E. Walker
*Pres., Charls Walker Associates, Inc.*
Paul C. Warnke
*Partner, Clifford, Warnke, Glass, McIlwain and Finney*

## Diplomatic Advisory Council

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*Ambassador, Iran*
*Vice Chairmen:*
H.E. Dr. Jose Juan de Olloqui
*Ambassador, Mexico*
H.E. Fernand Spaak
*Head of the Delegation of the Commission of the European Communities*
*Council:*
H.E. Anatoliy F. Dobrynin
*Ambassador, Union of Soviet Socialist Republics*
H.E. Eduardo Z. Romualdez
*Ambassador, Philippines*
H.E. Witold Trampczynski
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H.E. Jacques Kosciusko-Morizet
*Ambassador, France*
H.E. Simcha Dinitz
*Ambassador, Israel*
H.E. Berndt von Staden
*Ambassador, Federal Rep. of Germany*
H.E. John G. Molloy
*Ambassador, Ireland*
H.E. Dr. Pyong-choon Hahm
*Ambassador, Korea*
H.E. Sir Peter Ramsbotham, K.C.M.G.
*Ambassador, Great Britain*
H.E. Dr. Ashraf A. Ghorbal
*Ambassador, Arab Republic of Egypt*
H.E. Count Wilhelm Wachtmeister
*Ambassador, Sweden*
H.E. Jaime Alba
*Ambassador, Spain*
H.E. Roesmin Nurjadin
*Ambassador, Republic of Indonesia*
H.E. Dr. Willy Van Cauwenberg
*Ambassador, Belgium*
H.E. Age R. Tammenoms Bakker
*Ambassador, Netherlands*
H.E. Adrien F.J. Meisch
*Ambassador, Luxembourg*
H.E. Ferenc Esztergalyos
*Ambassador, Hungarian People's Republic*
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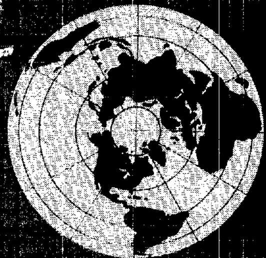
## Top Management Report on:

# INTERDEPENDENCE AND THE INTERNATIONAL CORPORATION



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This *Top Management Report* is intended for senior executives of international corporations, government officials, university professors, and others who share a professional interest in government-business relationships and the role of U.S. international corporations in the global community.

The International Management and Development Institute wishes to extend its sincere appreciation to the U.S. Department of State's Bureau of Educational and Cultural Affairs and those senior representatives of business, government, and private organizations whose cooperation and support made this *Report* possible.

In publishing the *Report*, we believe that great educational value may be derived from the presentation of diverse—and sometimes conflicting—viewpoints on this subject. It should be noted that the views expressed by the authors are their own, and not necessarily those of this Institute or any of the organizations or individuals with whom the Institute is associated.

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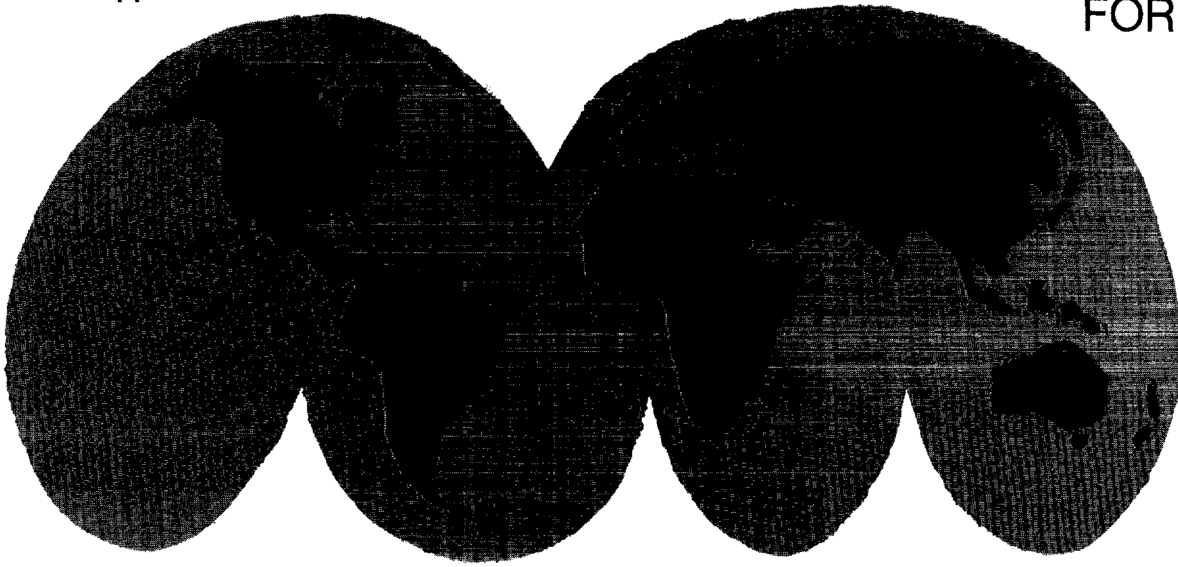

# Interdependence and the International Corporation

The Honorable Dean Rusk, in this *Top Management Report,* introduces the theme of "interdependence" with these words: "The human race has reached one of those critical points in its history. . . ."

He goes on to note the series of problems demanding solution—problems different *in kind* from any we have faced before, problems that tend to merge into each other and become a whole of enormous complexity. He then adds: "So we are at a great fork in the road. We can move hand-in-hand to try to resolve these problems, or we can shudder and wait for the time when we will try to solve them by warfare."

**Totality of Interdependence**

In planning this *Top Management Report* on "Interdependence and the International Corporation," we approached the subject in its broadest context—interdependence between government and business, between the Administration and the Congress, between the developed and the developing worlds, across the spectrum of critical political-economic issues confronting us.

While interdependence is the overriding need and the key to international economic foreign policies affecting government and business, by no means is interdependence guaranteed. It is a goal, not yet a reality. There are myriads of misunderstandings that today stand as roadblocks—roadblocks not just to securing the economic well-being of the industrialized nations but, equally, roadblocks to the attainment of the "New International Economic Order" which has become the stated objective of so many developing nations circling the globe.

We face not just "normal" problems and misunderstandings. We face mounting distrust and growing imbalances. And in the words of J. Irwin Miller, Chairman of Cummins Engine Company, in our last *Top Management Report,* ". . . the best hope for achieving a desirable balance would be for the nations of the planet to recognize the fact of economic interdependence and to shape their economic and foreign policies accordingly."

This *Top Management Report* is designed as a forum-in-print to assess the issues for the purpose of building understanding. To open the discussions, we asked Professor Rusk, as IMDI's Honorary Chairman, to outline the agenda of issues from his vantage point as former Secretary of State and former President of the Rockefeller Foundation. In the interview that follows, he discusses in some depth the role of the MNC in opening private investment channels which he believes will be the principal means by which the developing countries can obtain the capital, technology, and entrepreneurial skills they sorely need. He concludes his appraisal with an optimistic prediction of the future: a new spirit, a fresh start, a revival of confidence "on which private enterprise and democratic institutions so desperately depend."

Then, in the articles which follow:

- **Elliot L. Richardson,** former Secretary of Commerce, perceives "interdependence" from a historical perspective, observing that our goal must be "to make the benefits of civilization available to the whole human race." He brings into focus the MNC as an international economic force, especially as it encourages the internationalization of production. This force, he states, "is a reality that is changing our economic assumptions and our economic order just as surely as the revolution in telecommunications is changing our way of looking at the world and ourselves."

- **Harlan Cleveland,** writing from the Aspen Institute for Humanistic Studies, provides an analysis of interdependence: its definition, history, and present trends. Interdependence, he says, "is a condition not a theory, a 'fact' not an ideology, a way of saying what all of us learn as part of growing up:

that some relationships are inescapable, like having a brother who may get you in trouble but is still your brother."

- Senator **John Sparkman,** Chairman of the Senate Foreign Relations Committee, stresses the increasing need for international cooperation and respect between host governments and MNCs. Having conducted and heard many Congressional hearings on the question of MNCs' ethics overseas, the senior Senator from Alabama emphasizes the need for MNCs to "obey the laws and take fully into account public policies of host countries." But he also urges host governments "to foster conditions in which MNCs can maintain successful operations."

- Senator **Charles H. Percy** reconstructs the prevailing arguments on world economic integration. He notes the tenuous nature of interdependence and the sensitive interrelationship between domestic politics and the politics of international economic diplomacy. The Senator from Illinois calls on Germany, Japan, and the United States, in a tri-national effort, to restore world economic growth which would have as a by-product the fostering of more interdependence.

- **Henry H. Fowler,** a partner of Goldman, Sachs & Co. and former Secretary of the Treasury, stresses the need for "more effective leadership at the Chief of State level in the intergovernmental coordination of the economic policies of the major industrialized democracies." One major goal, he feels, is achieving a proper balance between national and corporate interests—giving the MNC "the opportunity to play its role in international economic development."

- **Alejandro Orfila,** Secretary General of the OAS, sees a critical hemispheric choice ahead for the United States and Latin America: either to welcome and cultivate economic interdependence and mutual development; or to resist the inevitable currents toward interdependence and invite hemispheric disharmony. Reviewing the agenda of issues facing the hemisphere including expansion and diversification of trade, the role of MNCs, and the transfer of technology, Mr. Orfila concludes with the conviction that "we can and will make the right choice for the future of the Americas."

- **Klaus A. Sahlgren,** Executive Director of the U.N. Centre on Transnational Corporations, examines the TNCs as a positive force in world economic interdependence. He sees as essential a readjustment and a clearer defining of the world role of TNCs. In this context, Mr. Sahlgren describes the efforts of the U.N. Commission on Transnational Corporations to harmonize the relations between TNCs and host nations through a code of conduct, an information system, problem-oriented studies, and a technical cooperation program.

- **Emile van Lennep,** Secretary General of the Organization for Economic Cooperation and Development (OECD), notes the accelerated increase in interdependence worldwide. This, in turn, makes it urgent that we harness interdependence for constructive purposes. Towards this end, the Secretary General states, governments in the industrialized world have special responsibilities, which he details in his article.

- **Lee L. Morgan,** President of Caterpillar Tractor Co., discusses the work of the OECD from his vantage point as CEO of a major international company. His focus: codes of ethical conduct. Mr. Morgan states that the quality of corporate citizenship "will increasingly affect the way major world business issues are resolved." He supports the OECD "Guidelines for Multinational Enterprises" as the "first attempt by an international governmental body to write an international code of behavior for business," and urges MNCs to comply with these Guidelines.

- **William F. May,** CEO of the American Can Company, observes: "As the globe grows crowded, and nature's resources diminish, we will all need all the wits we can muster." The international corporation, he believes, recognizes its share in the responsibilities accompanying interdependence. These include creating employment, organizing capital, improving technology, and encouraging human inventiveness.

- **Raymond H. Herzog,** CEO of 3M Company, writes as a representative of business leaders who share the critical concern that Congress be more fully informed of the facts guiding international corporate ventures. Relating 3M's experience in West Germany, he illustrates the benefits of foreign investment to all participants—both in the United States and host community. His plea is that the 95th Congress view foreign investment within the total picture—and that business leaders provide Congress with case examples which document how MNCs operate in the world economic system and elevate living standards at home and abroad.

- **J. Paul Austin,** CEO of The Coca-Cola Company, describes the results of his company's efforts to make Coca-Cola a *local* product. He notes, "we do not manufacture and distribute the final beverage ourselves in most cases." The trading partnership is "a fruitful partnership, with substantial benefits for both sides." Mr. Austin welcomes this type of relationship since these concerted efforts among nations create and maintain "an ongoing atmosphere where borders are at least potentially open."

- In the concluding article of this *Report,* **Peter G. Peterson** states that if the New International Economic Order is to become a durable fact, "it will be essential to persuade the American people that this New Order is much more likely to succeed because reasonable, effective terms are being set as one of the conditions for our aid."

We wish to acknowledge our appreciation to our guest authors who, in this *Top Management Report,* have helped to identify the primary areas where interdependence is crucial, the problems that demand resolution, and some of the solutions to the problems. ■

**Prof. Edward C. Bursk**

**Gene E. Bradley**

MARCH 1977

# THE INTERDEPENDENCE OF ALL PEOPLES

*by Hon. Dean Rusk*

**Dean Rusk, former Secretary of State, presents his views on the wide ranging issues of interdependence and America's role in an interdependent world. The following was excerpted from his remarks during a recent interview conducted in Washington by Gene E. Bradley, IMDI President. Highlights:**

- **The OECD nations—Western Europe, North America, and Japan—should jointly pool talents, productive capacity, and resources to tackle the pressing problem of energy.**
- **The extraordinary capacity of the multinationals should not be crippled either by unnecessary fear or by attempts to drive them out of business by making their operations unprofitable.**
- **The government still needs a great deal of assistance from private organizations in trying to anticipate some of America's long-term issues and in deciding what actions ought to be taken.**
- **Private investment channels are the principal means by which the developing nations can obtain both capital and technology.**

The human race has reached one of those great critical points in its history. We now have on our agenda a series of problems which are different *in kind* from any the human race has faced before. Some of these have to be resolved by the turn of the century if we are to avoid catastrophe. I am thinking, for example, of:

- *The prospect of an unlimited nuclear arms race.* We need nuclear power, but there is danger in the proliferation of nuclear weapons.
- *The population explosion.* On the most optimistic basis we may be reaching 15 billion people on this planet.
- *The longer range aspects of the energy problem.* Demand continues to grow, and resources are not likely to keep up with that demand.
- *The possibility of a sharp decline in the availability of certain critical raw materials.* Some may even be exhausted completely.
- *Relations among people.* Of concern are tensions between the developed and developing countries.

These problems tend to merge into each other and become a whole of enormous complexity—problems that will press against the outermost limits of the capacity of the mind of man.

These are the very issues which could unify us, could help bring into being a family of man as an organic community (*not* world government) for the purpose of helping solve problems common to us all; or they could renew some of the oldest causes of conflict among nations. We have all been relying on the prospect that science and technology will somehow manage to find us the food and raw materials we think we need for our existence. But somewhere along the way, by 1985 or 1990, that hope may prove to be illusory.

So we are at a great fork in the road. We can move hand-in-hand to try to resolve these problems, or we can shudder and wait for the time when we will try to solve them by warfare.

### United States Involvement

The stake of the United States in that range of issues is much greater now than ever. We are trading with the rest of the world at a level of more than $200 billion in both directions. The shape of our own economy is intimately related to international trade and investment. We share problems and need to move in a common direction—e.g., establishing the rules of conduct for multinational corporations as they move around the world. We dare not move off in separate, national directions. So I believe we have entered a period where more and more intimacy between us and our partners abroad is a sheer necessity.

This naturally doesn't mean that the United States should take sole responsibility. But in terms of action, I think it will be necessary for the United States to be a senior partner and to carry a larger share of the effort.

At the same time, I would hope that we would not move ahead on this as though we had something called an "American Plan" into which we invited others, but that we would put our heads together and develop a genuine community plan, taking advantage of all that others have to offer. For example, the Germans are substantially ahead of us now in the technology of energy conservation—e.g., the recycling of heat.

I remember testifying during the Truman Administration before a Congressional committee in support of some rather minor appropriations for scientific and cultural exchanges abroad. One of the Congressmen interrupted me and said, "But, Mr. Rusk, any nation that developed the atomic bomb, radar, and penicillin doesn't need scientific exchanges." And he thought he was talking about the United States! The British developed radar and penicillin. The atomic bomb came out of the minds of British, Danish, German, Italian, Hungarian, and American scientists; it was derived from science in several countries.

In the energy field, I would favor a major combined effort by the OECD countries—Western Europe, North America, and Japan—to pool our brains, talents, engineering skills, productive capacity, and resources; to join together in a comprehensive attack on all aspects of the energy

DEAN RUSK is currently Professor of International Law at the School of Law of the University of Georgia. A distinguished diplomat, Professor Rusk was U.S. Secretary of State for eight years during the Kennedy and Johnson Administrations. Before that, he served in other key posts in the State Department including Deputy Under Secretary of State and Director of the Office of U.N. Affairs. Professor Rusk, a former President of the Rockefeller Foundation, has received many honors and awards including the Cecil Peace Prize. He is also Honorary Chairman of the International Management and Development Institute and a Vice President of the American Society of International Law.

Hon. Dean Rusk (left) discusses interdependence with IMDI President Gene Bradley.

problem, on a scale and with an urgency not less than the space program.

I emphasize the pooling of *brains,* because we in this country need the brain power that is present in many parts of the Free World if we are to achieve some of the break-throughs that will be needed on so pressing a problem as energy. But, in any event, if we were to become partners in a great enterprise, then many of the lesser irritations would fall by the way, and we would draw closer together.

It is very difficult for governments to act beyond the tips of their fingers because the day's problems are so urgent and compelling that they tend to absorb the energies and talents of the government itself. In democracies, officials tend to be elected on a short-term basis; therefore, their concerns are related to the short-term issues. I think that government itself must let its imagination move more energetically into the longer-range issues. I believe that President Carter is a man whose cast of mind is in that direction, and I am encouraged.

The fact remains that government is going to need a great deal of assistance from private organizations, such as IMDI, in trying to anticipate some of these major long-term issues and deciding what actions ought to be taken now to get ready to deal with them.

### Role of the MNC

Private investment channels will be the principal means by which the developing countries can obtain both capital and technology, with entrepreneurial skills in addition. I think some of our friends in the developing countries are letting the rhetoric outrun the real facts of life.

For example, many of them are pressing for large amounts of capital through what they call "official channels," meaning governmental money. We in this country can export from $15 to $20 billion a year of capital through private channels because of the powerful and efficient capital formation processes of our private economy, but there is no way in which we can do anything like that through official channels with tax money.

We can and will be of some help, but we simply cannot tax farmers in Kansas, steel workers in Pittsburgh, corporations, and school teachers to provide the amounts of capital which the developing countries insist they need. Very large development capital is available only through private channels, and countries seeking it must compete for it with all other users of capital—foreign and domestic—and in developed as well as other developing countries.

*Regulation of MNCs.* There has been much rhetoric about MNCs being beyond the law. But they are subject to somebody's law. Every piece of them is subject to some national jurisdiction.

Of course there are certain types of activities or certain parts of their operations which are difficult to keep track of and to regulate. That only means that we must be alert and check for abuses. Is there rapid movement of liquid resources from one capital to another for speculative purposes? We will take a look at that. Are there abuses of pricing policy from country to country? We will take a look at that. And so on. But it would be very sad indeed if the extraordinary capacity of the multinationals were crippled either by unnecessary fear or by attempts to drive them out of business by making their operations unprofitable.

*Danger of Generalization.* It is important for businessmen not to generalize about the Third World, or about the rhetoric coming from the Third World. Each one of these countries is unique. When you get a hundred delegates together in one room to try to formulate something like the Charter of Economic Rights or the Duties of States, it is part of the sociology of groups that the shrill voice tends to dominate; the moderate or the conservative voice either does not speak up or does not get heard. And at the end there *seems* to be a measure of solidarity behind the rhetoric.

It is true that some of our Third World friends do not understand that if they want investment, they must compete for it in terms of condition and atmosphere, since most investors still have extraordinary opportunities for investment within the industrialized world under relatively safe political and legal conditions. In fact, however, there are a good many countries within the Third World that *do* want private investment and are prepared to establish a responsible climate for investment.

Even in countries that are not democratic (as we are accustomed to use that term), their leaders are nonetheless political leaders. They must be concerned to some extent about popular support and the attitudes of their own people. But that does not mean that when the day's business has to be transacted, they might not talk in very realistic terms about what can actually be accomplished to get a particular job done.

*Possibility of Practical Solutions.* Most of the Third World countries are newly independent. They became independent without large numbers of people trained either for government or for entrepreneurial or management tasks. They need sympathetic and understanding help in those matters, without our being overbearing or patronizing. I think it is possible to sit down with them without pretense and try to find practical solutions to practical problems, acceptable on both sides. In the process I think we could find extraordinary opportunities for American private participation.

I have seen this in many countries myself, both while I was in government and while I was with a large private foundation working hard on what has come to be called the "Green Revolution." One can penetrate the rhetoric and the theory and become workers in the fields together in a way that builds confidence and develops a mutual understanding that can come about in no other way. There *can* be a "new international economic order."

**New International Economic Order**

The origins of this concept are complex, and some are easier to understand than others. For example, if historically the producers of primary products have had disproportionately low rates of return on their products in relation to industrialized products which they want to consume, there is a real economic issue which needs to be addressed. We have tried from time to time to deal with this problem, with regard to particular commodities.

In connection with oil, the OPEC countries have taken the bit in their own teeth and have done a good deal about it themselves, with what long-range results for themselves we do not yet know. But there are other elements.

For example, the idea of sovereignty means much to newly independent nations, partly because they have only had it for a very short time. They sometimes forget that we are sovereign too. The problem here is to find out how two sovereign nations can in fact cooperate reasonably and rationally with each other.

In the revolutionary struggle through which so many of them have come, one of the points they made was that their poverty was a direct result of foreign colonialism. They discovered when they became independent that this was not necessarily true. There has developed a sense of frustration that somehow a new heaven on earth did not appear when they became independent.

I remember hearing Mr. Nehru talk at great length about how easy it is to lead a revolution but how difficult it is to build a nation. It is going to take time for these new countries to understand what it takes to build a nation. We should not get too irritated about some of their excessive language during that period. But we would do them a disservice if we encouraged them to continue to indulge in excessive rhetoric which has no connection with the real world.

I grew up in the southern part of the United States. When I was born, that part of the country was almost pre-scientific and certainly was underdeveloped. We did not improve our situation by large transfers of aid from other parts of the country. We revolutionalized our lives down there by a powerful combination of education, public health, and increased productivity of the basic economy, which was agriculture. Then we began to build on that and to accumulate our own capital and train our own people, and now that part of the country is one of the most vital parts of the United States. Our lesson in the South is the same lesson which many of the newly developing countries, the newly independent countries, may well have to learn from their own experience to a degree. But perhaps we could help them with it.

**Leadership and Grass Roots**

In the end, however, everything depends on the interdependence of *all* peoples, beginning with the democracies and the American people in particular.

We have been in a period—one I hope we will soon be coming out of —where effort has been partially paralyzed in the democracies. The leaderships of the democratic countries seem to have been, in recent years, afraid of their own people, too timid about calling upon them for the effort that we ought to be making to get on with our great tasks.

The American people are willing to do a great many things, if they feel that they are working with others. But I suspect that many feel we are trying to do too much alone. We need genuine help from our closest partners. We need to find ways in which we can recreate a team of which they and we are members, embarking upon great enterprises.

It will help to pause for a moment to recognize, frankly, that we have been through 13 very difficult years in the United States, beginning with the assassination of John F. Kennedy. Then came the assassinations of Robert Kennedy and Martin Luther King, Jr.; the attempt on George Wallace; the agonies of Indochina; the disillusioning events of Vietnam; and finally a period of recession, unemployment, and inflation. No wonder our spirits have sagged a bit. I talked to a junior high school class the other day. As they came into the room, it occurred to me that they had not lived through any time that they could remember where they could sense the elan and the confidence and the high spirit of the American scene.

My mind goes back to Harry Truman, that little man from Independence. Harry Truman had a tremendous confidence in the grass roots American people. He felt that at their best the American people were a very good people, that they would do what had to be done *if* they understood what it was and why. For example, in the middle of the Korean War, at the height of the hostilities, we invested three and one-half percent of our gross national product to support the Marshall Plan, Point Four, and similar ventures. Now we cannot get one-half of one percent of our gross national product for foreign aid. It is a matter of will; but I think the will is there—at the grass roots.

Now there are important signs that we are bouncing back. I think the Bicentennial has helped, as we gathered in groups all over the country to reflect upon those powerful ideas so eloquently articulated by Thomas Jefferson and his colleagues.

Also, we are starting a new four-year period in the White House, and there is always a sense of fresh start. These are issues that have little to do with whether we are Republicans or Democrats. We are all in this together, and I am very pleased to see that we seem to be recovering our spirits.

This recovery is important, not only here in our own country, but in other parts of the world. When our spirits drop, then people elsewhere become discouraged. When we feel a sense of that confidence on which private enterprise and democratic institutions so desperately depend, then we can see a revival of confidence in other countries. This is interdependence in the most fundamental sense.

So I am approaching the future with considerable hope. ■

# MNCs: Closing the Gap in an Interdependent World

*by Hon. Elliot L. Richardson*

**Secretary Richardson observes that a stable world future depends upon the closing of the economic abyss separating developed and less developed nations. He declares that:**

- **The United States and other industrialized nations must make special efforts to achieve "a credible communication of concern, compassion, and caring and a real determination" to close the existing wide gap between rich and poor.**
- **Investment capital by multinational corporations is the most effective hope for eliminating the "grinding poverty" stemming from the "chronic" capital shortage in the less developed nations.**
- **This capital is most effective because it carries with it the added benefits of manpower development, managerial expertise, and marketing apparatus.**
- **The profound economic force of multinationals is spreading the "benefits of civilization" to all nations.**

It was Arnold Toynbee who said, "Our age will be remembered not for its horrifying crimes nor its astonishing inventions, but because it is the first generation since the dawn of history in which man dared to believe it practical to make the benefits of civilization available to the whole human race."

The practicality of that enterprise is, indeed, staggering to contemplate; yet it has now become an equally rational expectation. It has nothing to do with altruism or munificence. We dare to think such thoughts, not only because of their practical possibilities, but also because it is in the self-interest of the world's nation-states to pursue such goals.

Extending the benefits of civilization to the whole human race has to do with the world becoming interrelated and interdependent, in a meshing of material wants, needs, and objectives. The limitations that time and geography have historically imposed have given way to the accumulated forces of technology—a technology that no longer recognizes these historic limitations. The technology that has helped to create the industrial superpowers has also created an insatiable appetite in these colossuses for the raw materials for which they are increasingly dependent on the less developed nations.

The interdependence of basic needs is a fact, as we have seen, borne in upon us of late by a whole series of things—crop failure, the OPEC increase in oil prices, the worldwide epidemic of inflation, the impact of inflation on the creation of unemployment, and the pervasive implications of world trade and the role of the multinational corporations.

Much of the world may still be dependent on the United States, but the United States must also depend on the rest of the world. We export 60 percent of our wheat, 50 percent of our soybeans, and 33 percent of our cotton and tobacco. But we also import 100 percent of our tin, manganese, and chrome; about 55 percent of our titanium; and approximately 40 percent of our petroleum.

Of all the world's production, 16 percent is now traded internationally—double the volume of 25 years ago. This increase parallels, over roughly the same period of time, the birth and growth of regional customs unions, common markets, multinational corporations, and such international financial institutions as the World Bank and the International Monetary Fund. What were once local product markets are now world product markets; what were once regional capital markets have merged and become one. Corporate treasurers switch funds from one currency to another as conditions in the capital markets change. Production managers within the European Common Market reach across their national borders to find the workers they need in other countries.

Some of the benefits of such increased exchanges are obvious: increased international cooperation, a merging of objectives and submerging of ancient national enmities, the paving stones for new paths to peace. There are economic rewards, increased job opportunities among them. In the United States, each $1 billion of American exports creates or maintains some 50,000 jobs. By

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increasing the exports of American goods and services by $20 billion, we could create one million new jobs.

**Potential Peril**

There is also potential peril in these new economic arrangements, as evidenced by the Organization of Petroleum Exporting Countries (OPEC), a cartel with the power to disrupt the world economy. Whether this power is exercised or not, its very existence complicates private sector planning and introduces a significantly destabilizing element of uncertainty.

Another obstacle to the smooth functioning of an international economic order is the current "North-South" or "Rich-Poor" dialogue. Less developed countries seek preferential access to our markets on a long-term basis, without commitment to either the "most favored nation" principle or the principle of reciprocity—principles which are the scaffolding of our efforts to build a freer, more efficient world trading system. They also seek to establish a "New International Economic Order," attempting to effect a major shift of resources from richer nations to poorer through such devices as a "Common Fund" for the non-market management of key commodities.

We saw that Common Fund demand clash with the proposal of the United States for the creation of an international resources bank. A disparity in positions also became apparent during Law of the Sea negotiations.

Some of the developing nations take the stance that the exploitation of the deep sea minerals (belonging as they do to the common heritage of mankind) should be accomplished jointly, and that the world should share in the developmental process and in the proceeds of the sale of magnesium, tin, cobalt, and other minerals.

An opposing point of view, as articulated by the United States, is that the countries possessing the technology for exploitation and the capacity to mobilize the capital needed to apply this technology should be free to develop the sea bed resources without hindrance by an international authority. However, the United States recognizes that it is legitimate to have an international authority responsible for the equitable sharing of royalties or revenues resulting from exploitation of deep sea minerals.

**Rich Nations Must Act**

These philosophical differences aside, I think it is essential that the rich countries, particularly the United States, seek to achieve a credible communication of concern, compassion, and caring and a real determination to do something about closing the intolerable gap between rich and poor nations.

The traditional image of the less developed countries (LDCs) remains all too true: a terrible, grinding poverty that oppresses roughly half the world's population. Some 900 million people, according to the World Bank, live on incomes of less than $75 a year, and the majority of others are only a little better off.

Equally distressing is the fact that, although economic progress is being made, it is slow and tortuous, and its impact has been negligible on the widening gap in living standards that separates them from the developed nations of the world. The word "gap" is an inadequate description of these differences. More appropriately, it should be called a chasm, an abyss —one that must be bridged, must be closed, because a stable world cannot be built around it.

There are compelling economic reasons, as well as humanitarian and policy reasons, however, for becoming involved in the development of the under-developed nations. They constitute a great new emerging market that is already of a size and significance not generally realized. In 1974-75, for example, the non-oil producing LDCs accounted for no less than 28 percent of total U.S. exports. In addition, the traditional image of their economies as stagnant and dependent on commodities is becoming increasingly inaccurate. These countries now provide over 20 percent of all U.S. imports of manufactured goods.

As the economies of the LDCs develop, the size of their markets for U.S. exports will grow enormously. Assuming an economic growth rate of six percent a year in the LDCs, U.S. exports to these countries could well run at an annual rate of $70-75 billion by the end of the 1980's—an increase of two and a half times the current level, in constant 1974 dollars.

That is the potential market, and a substantial one by any standard. But this potential is dependent on the LDCs' economic growth, and especially their export capability. In order to buy more from abroad, they must be able to sell more and earn more. Most importantly, they must be able to obtain the capital they need to finance their accelerated growth.

**Production Base Lacking**

The trouble is the production base for self-sustained development is lacking; the vicious cycle of poverty perpetuates itself. Without an adequate production base, the LDCs cannot earn enough from exports of manufactured goods to pay for the tremendous amounts of capital goods they need to improve that production base. Nor can they earn enough from exports of their natural resources, even though these have been growing at improved, more stable prices. Nor is aid from the developed nations likely to be sufficient.

The only way, really, to break this cycle of poverty is with heavy infusions of foreign capital—massive infusions from every available source. According to a staff study by the Department of Commerce, the investment needed to support a real Gross Domestic Product growth rate of six percent a year is currently $116 billion.

This will grow to a phenomenal $262 billion by 1990. Given a steady growth in exports by the LDCs from $100 billion in 1976 to $267 billion by 1990, the foreign exchange still required, after savings, to support that six percent growth rate will increase from $41 billion to $87 billion in 1990.

This is what the development experts are referring to when they talk about the capital shortage of the less developed countries. Where is all this capital going to come from? The source with the greatest potential is direct foreign investment by multinational corporations.

**Multinationals—Best Source of Capital**

Greatly increased capital flows, of course, are needed from all sources—exports, credits, bilateral and multilateral aid, as well as private investments of other kinds. But there is no escaping the fact that the capital supplied by transnational firms is the most readily available for meeting the chronic shortfalls of savings and other capital flows. In addition, the capital supplied by multinationals tends to be more effective because it carries with it such additional benefits as manpower development, a marketing apparatus and managerial expertise, which the countries need every bit as much as capital.

Yet there is a mutual reluctance on the part of these countries and the multinational firms to join in those undertakings that would benefit them both. The major obstacle—a formidable one—is the corrosive lack of confidence between the nation-states of the developing world and the multinationals.

Both must cope with the residue of resentment and suspicion left from a troubled history of colonialism, on the one hand, and expropriations without fair compensation, on the other. What is needed, quite obviously, is an international code of conduct, one that is mutually acceptable and mutually beneficial to both countries and companies. Such a code is essential for building the climate of mutual confidence that will invite and encourage investment in the developing nations.

Although an effective monitoring system will be needed to police such a code, it will still call for mutual trust, and we should remind ourselves it was trust of the same order, and risk of the same order, on which our civilization was built. The relationship between the multinationals and the developing nations must be based on compromise and trust, for while the investing company is at the mercy of the host country, the multinationals can also go where they choose, to the most hospitable environment.

In our own country we have benefited—and continue to benefit—from investments of foreign firms in our economy. Foreign capital financed the Erie Canal and the Louisiana Purchase, highways and railroads, banks and insurance companies. Foreign manufacturers employ more than a million Americans on a payroll of about $13 million a year, and account for about 24 percent of our exports.

Yet we just went through a period of shudders in the past two years, in which a fear of direct foreign investment in the U.S. bubbled to the surface. There was concern that foreigners, aided by dollar devaluations and the acquisition of petrodollars by the Middle East oil-producing countries, would take over and dominate our economy.

Reacting to these fears, Congress enacted the Foreign Investment Study Act of 1974, which required the Department of Commerce to undertake the first comprehensive study ever made of foreign direct investment in the United States.

After 18 months of intensive research, the study concluded that foreign investment does not represent a threat to the U.S. business community and, while it can be important in some sectors, does not loom very large in terms of the U.S. economy as a whole. Foreign direct investment in the United States rose rapidly between 1971 and 1974, and stood at $26.5 billion as of January 1, 1975. The United Kingdom, Canada, and the Netherlands each account for about 20 percent of the investment, but there also is healthy representation by Swiss, German, and Japanese interests.

**World Dependent on Multinationals**

This is but another indication that we are witnessing the development of a truly world economy. Increasingly, the investment decisions and operations of multinationals—many of them U.S.-bred—can be viewed in terms of world allocations of resources and a maximizing of world welfare. International production has already surpassed foreign trade as the main channel of economic relations in terms of size, rate of growth, and future potential. The international company has become the single most important vehicle for developing a world system based on a more rational allocation of resources than has been the case in the past.

The profound economic force that the multinationals embody is the internationalization of production. The strength of this force has a life of its own, just as the developments of the industrial revolution proceeded without respect to national policies or traditional economic patterns. Such a force creates its own environment. It becomes a new reality with which all nations must cope.

It is a reality that is changing our economic assumptions and our economic order just as surely as the revolution in telecommunications is changing our way of looking at the world and ourselves. It is carrying us forward in the direction of that once unthinkable belief that the benefits of civilization can be made available to the whole human race. ■

**"The only way . . . to break this cycle of poverty is with heavy infusions of foreign capital—massive infusions from every available source."**

# Interdependence: Where You Stand Depends on Where You Sit

*by Hon. Harlan Cleveland*

**In discussing the inescapable nature of interdependence in international relations, Mr. Cleveland makes these observations:**

- **Each nation can, within limits, choose its degree of dependence on others.**
- **Interdependence has served the present industrial democracies well.**
- **The first step after declaring independence is the management of interdependence.**
- **The United States has learned—through "hard experience"—that it, too, is dependent on the rest of the world.**

Interdependence is a familiar but uncomfortable idea. In its simplest meaning, it is a condition not a theory, a "fact" not an ideology, a way of saying what all of us learn as part of growing up: that some relationships are inescapable, like having a brother who may get you in trouble but is still your brother.

Interdependence wins no popularity contest, here or abroad. In international relations, interdependence is technologically, economically, politically, and morally inescapable; no nation can be wholly master of its own fate. Along with everyone else in the world, Americans don't have to like it, but we do have to learn to live with it.

But as you look around the world you do not see nations acting as though their interconnectedness were inescapable:

- Nuclear weapons are the clearest present danger to mankind's survival. Yet those who already have more than they need are building more of them, and a number of those who do not have them are keeping open the option to build or acquire them.
- Irreversible damage to the biosphere is clearly possible. Yet industrial and urban polluters continue to soil the air and the seas, and a hundred nations yearn to industrialize and urbanize enough to add their fair share of pollutants to the global environment.
- There is a great deal of talk just now about meeting basic human needs. Yet international aid, investment and development strategies still mostly help the rich and middle-income people in both "rich" and "poor" countries.
- A world food system needs surpluses from the North American granary. Yet farm subsidy programs in the United States and Canada still are best designed to prevent surpluses.
- Our interconnected world needs effective international organizations, especially to manage the transfer of resources from richer to poorer countries. Yet the poor-country majority has eroded the U.N.'s authority, torpedoed its taxing power, and rejected proposals for sharing revenues from the continental margins and the ocean floor.
- Transnational enterprise is still the most effective agent of technology transfer. Yet some growth-hungry host governments and job-hungry home governments are readier to denounce these transfers than to regulate them.
- Since 1971 the U.S. dollar has not been strong enough to be the "key currency" for the whole world. Yet progress toward creating a truly international money has been, to put it charitably, sluggish.

### A Means Not an End

Evidently the interconnectedness of world society is only half the story. Some degree of interdependence is inescapable. But it is also true that each nation can, within limits, choose how dependent it wants to be on the actions of other nations, and how much it wants other nations to depend on its own national decisions. Interdependence is thus a means (to self-reliance, to freedom, to prosperity, to security, to the handling of problems too big for one nation to handle alone), not an end. Like the science and technology that make it possible, interdependence is not inherently a Good Thing or a Bad Thing; it is morally ambiguous. It can, for example, be a threat to security (Western Europe's dependence on Arab oil) or an enhancement of security (Western Europe's dependence on the U.S. nuclear umbrella).

In a world where nobody is in charge, each of the main actors—which are the governments of nation-states (including their publics when they are allowed to express their opinions), and a variety of transnational enterprises and associations—makes this choice in hundreds of detailed decisions that together constitute the "fact" of interdependence at any one moment in time. Thus, for example, as of 1976:

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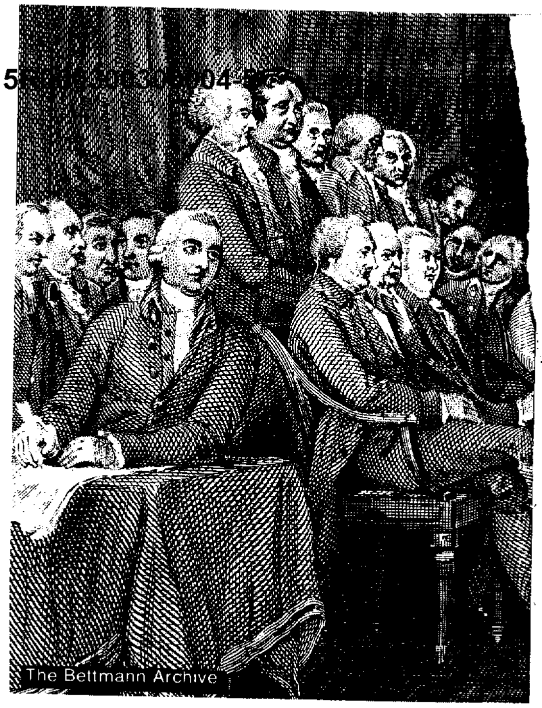

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- The United States has opted for an increased dependence on Middle Eastern leaders for energy—because it decided (by default) not to have a coherent national energy policy.
- The Soviet Union, by betting on heavy industry and failing to grow enough food, has opted to depend on North American farmers for adequate supplies of wheat.
- The People's Republic of China has chosen to be very selective in its interdependence—but Peking has made a $200,000,000 contract with the Kellogg Company to build some ultra-modern fertilizer plants in a hurry.
- Western Europe, by creating a Common Market, has opted for less economic dependence on America—while building its military defenses around the presence of U.S. troops and nuclear weapons in Europe.
- Japan, by building a modern industrial state on islands with virtually no resources except highly educable people, has opted for an extreme dependence on unimpeded commerce and communications.
- Iran, by selling off its oil fast to build a modern industrial export industry, is making its future very dependent on the later willingness of other nations to permit access to their markets.
- The executives of some transnational companies, who are judged by short-term profit margins, are reducing where they can their investments in countries whose politics they judge to be unfriendly or unpredictable.

So it does not get us very far to say "interdependence is a fact." The *degree* of mutual dependence is not a given. It's an option, a choice, a "policy."

**Benefits Without Burdens**

Four billion people so far share the globe's patronage, and its perils. It is human nature for each of them—and each of the nations into which they are divided—to seek the benefits of interdependence without its burdens.

Our Western European friends, for example, have grafted industrial technology onto long national traditions and self-confident cultures. After several centuries of intra-European conflict and extra-European conquest, they have achieved by cooperation (among themselves and with the United States) the longest period of peace since Charlemagne. European leaders typically learn several languages, appreciate a variety of cuisines, are at ease in international gatherings.

Europeans invented the freedoms—of the seas, of commerce, of exploitive investment—that gave their technological strength full play and linked them with the rest of the world, on European terms. But those links are the other name for dependency: Western Europe must lean on the rest of the world for much of its food, most of its markets for industrial exports, the bulk of its minerals, and (except for the finds under the North Sea) nearly all its oil.

The Japanese, who came later and more hurriedly to the Industrial Revolution, had almost nothing to work with except energetic people and a genius for organizational behavior; one expert refers to Japan as a "minerals museum," implying that it can find under its own soil only enough minerals to keep its museums supplied with samples. Yet by learning from experience the limits of independent action, they have managed to make interdependence the basis of an "economic miracle."

Interdependence has served the present industrial democracies well, and the notion that it must now be organized in wider, more consultative multilateral bargains creates less culture shock in Western Europe and Japan than elsewhere.

Among the developing, ex-colonial peoples of South and Southeast Asia, the Middle East, black Africa and Latin America, "interdependence" is still a touchy word, under suspicion as a new formula for enslaving them—with Western ("white," "gringo") economists and businessmen taking the place of the garrison troops and intervening Marines that are still remembered in living color.

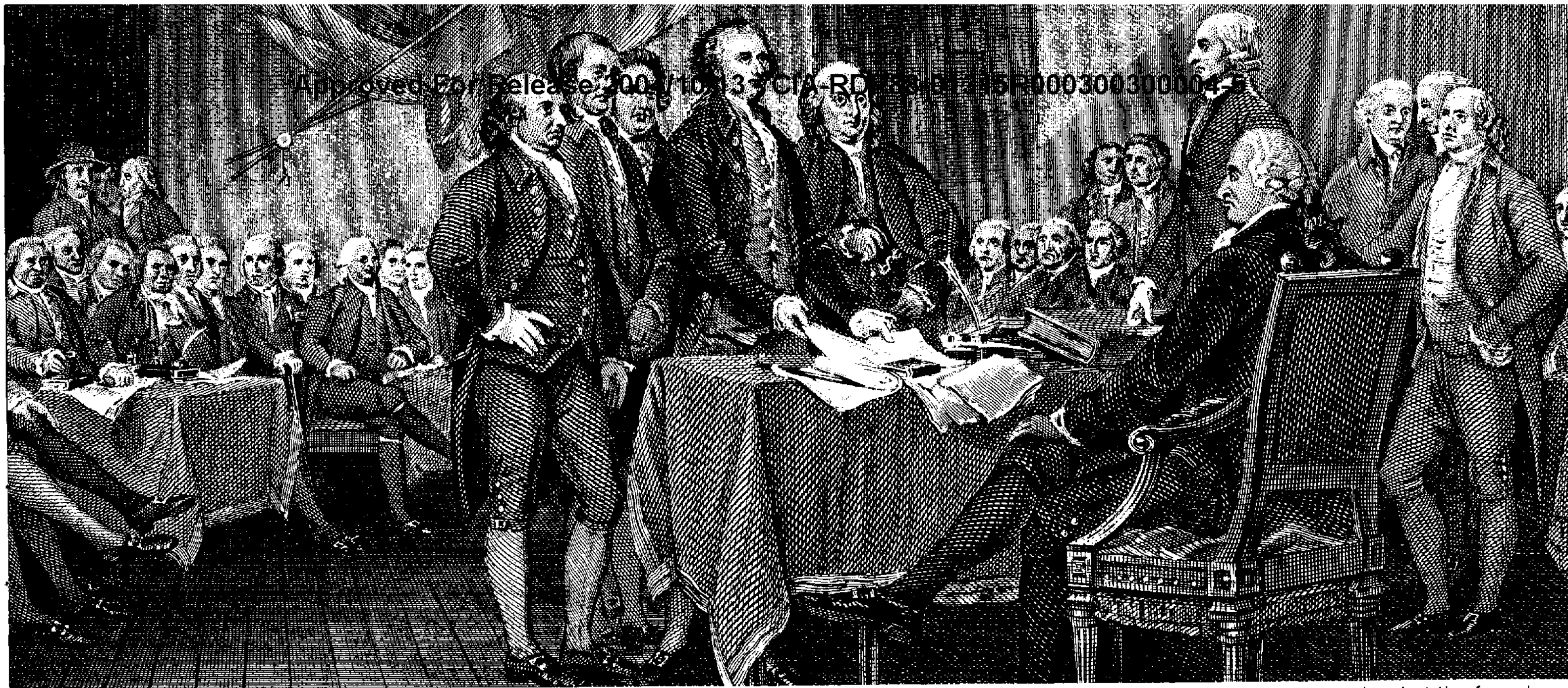
To the language of resentment is added now the prideful achievement of OPEC, which managed to prove that all of the dependence did not have to be on the side of the weaker nations.

So for the Third World, and for "Third Worlders" in the politics of the Atlantic and Pacific democracies, interdependence is far from a "fact" to be passively accepted. It is, rather, a form of dependencia to be converted, by struggle and shouting and hard-nosed negotiation, into two-way bargains with enough equity and dignity on both sides to prove that the colonial era is really past.

**From Independence to Interdependence**

What the newly independent members of the world community are discovering, of course, is what the founders of the American Republic also had to learn from hard experience: that the next step after a declaration of independence is the management of interdependence.

The Spirit of 1776 was not only universal in its idealism but interdependent in its struggle for inde-



"What the newly independent members of the world community are discovering, of course, is what the founders of the American Republic also had to learn from hard experience: that the next step after a declaration of independence is the management of interdependence."

pendence. Most of the important resolutions in the Continental Congress, the movements of Washington's army, and the nation's early problems of trade and finance had important international dimensions. Would Canada or Ireland join in the revolt against Britain? Would the French fleet arrive at the right place in time to insure victory? Would the Spanish act against English garrisons in Florida or would her colonies also seek independence? Would liberal, possibly revolutionary movements in Flanders or Geneva or Sweden emulate the American Revolution? Would Holland or France loan hard currency to America?

But from 1815 on, fearing no foreign power and able (like the Japan of today) to get away with minimal defense spending, the United States was free to develop its rugged individualism under the tacit protection of the Royal Navy. The important moments in our international relations in the century after 1815 must in retrospect be classified as cheap shots: the Monroe Doctrine, the wars of 1846-47 and 1898, the opening of Japan, the purchase of Alaska, the frightening of France out of Mexico, the Open Door in China, the arbitration of the Russo-Japanese War, the takeover of Hawaii, the various expeditionary adventures in Latin America. Even the successful (and costly) intervention in the First World War was a belated decision by a very independent United States to take part in somebody else's war.

The most important happening in "foreign relations" during this time was the arrival in the United States of more than 30 million immigrants, probably the largest voluntary migration of peoples in human history.

Our century and a quarter of success in isolation, our profound experience of real-life independence from events in the rest of the world, covers more than half of our national history; small wonder that it spawned an ideology that still has its sentimental echoes in present-day politics. ("Get the U.S. out of the U.N. and the U.N. out of the U.S.") But ever since Hitler's armies appeared on the English Channel in May 1940, and especially after the Second World War left the United States—for a time—as the world's only superpower, the question has been not whether to be interdependent, but how to handle our inescapable relationships.

Even so, the manner of our emergence misled us about the nature of interdependence. American economic dynamism, military strength, cultural vigor, and political imagination helped create a very interdependent world but a very asymmetric one. Others seemed to need our nuclear protection, our weapons, our food, our science and technology, our university degrees, our loans and grants, our movies and television programs, and our political leadership—and we didn't see ourselves as needing much from them except willing cooperation in our plans for world order.

The real relationships have never been as one-sided as that, of course. Our nuclear preeminence began with experts and expertise from Europe. Our energy comes increasingly from the Middle East. We import large proportions of many key minerals we must have to keep going, including tin, chromium, bauxite, manganese, nickel, zinc, and lead. The very definition of our "high" standard of consumption is the variety of things and the diversity of culture we buy from abroad. Our farms and industries are critically dependent on easy access to overseas markets under reasonably predictable conditions.

Still, most of us, if we thought about it at all, have until recently considered interdependence as a Good Thing because we didn't think of it as dependence on others for anything we really had to have.

It was the Arab embargo, of course, which brought us up short—short of oil and also short of doctrine for the era of "world order politics" so suddenly upon us. As we look back to our history for guidance, we will do well to regard our long period of "splendid isolation" as an aberration, and return, as to a norm, to the idea the founders started with 200 years ago: to seek our independence through the astute management of interdependence. ■

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This article is digested from Mr. Cleveland's published writings, including his recently published book on *The Third Try at World Order: U. S. Policy for an Interdependent World,* (The Aspen Institute for Humanistic Studies).

# Economic Interdependence and the International Corporation

*by Hon. John Sparkman*

**In summarizing efforts underway to achieve international cooperation with respect to multinational corporations, Senator Sparkman stresses that:**

- **It is important not only for MNCs to obey the laws of host governments, but also for host governments to provide a favorable climate for their operation.**
- **Free and fair competition is still the best method for stimulating economic progress and higher living standards worldwide.**
- **The right of governments to tax revenues must be balanced by the right of corporations to be free from excessive taxation.**
- **Differences between the developing and industrialized nations must not stand in the way of improving the flow of technology.**

The global response to economic interdependence has become increasingly more complex and sophisticated. Nowhere has this been more true than in questions that have been raised concerning the behavior of multinational corporations, particularly with respect to corporate ethics, competition, taxation of foreign profits, and technology transfers.

### Corporate Ethics

The last few years have witnessed dramatic public revelations of corporate payments by American companies to foreign officials, journalists, and political parties or individuals with the goal of obtaining business advantages. The scope of corporate bribery has brought to our attention the need to strengthen legal norms and procedures at the national and international levels, but the various values and ethics of nation-states make this a most complex problem.

As Chairman of the Senate Foreign Relations Committee, I have shared a particular concern for this complex issue. The Senate Foreign Relations Subcommittee on Multinational Corporations has held extensive hearings on the question of corporate bribery. The Subcommittee has focused not only on the specific charges of corporate bribery, but also on the much larger issues of public policy. Are corporate payments necessary for doing business overseas? What impact do these payments have upon U.S. foreign relations?

It is the view of the U.S. Government that multinational corporations must obey the laws and take fully into account public policies of host countries. We have equally stressed the need for host governments to foster conditions in which MNCs can maintain successful operations. To this end it would be helpful for nations to continue to cooperate and develop international codes of conduct for MNCs.

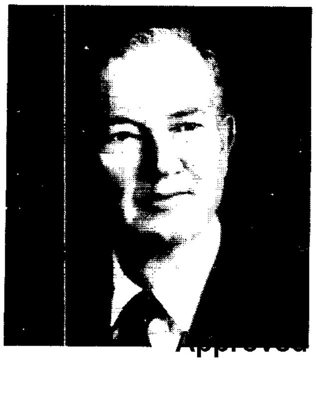
As early as December 1975 the U.N. General Assembly approved by consensus a resolution which:

- Condemns all corrupt practices, including bribery by transnational and other corporations, their intermediaries, and others involved in the violation of the laws and regulations of the host countries;
- Calls upon both home and host governments to take all necessary measures which they deem appropriate, including legislative measures, to prevent such corrupt practices and to take subsequent measures against the violators;
- Calls upon governments to collect and exchange information on such corrupt practices.

It is noteworthy that the United States interprets references to bribery to cover not only the offering and payment of illegal payments, but also, just as critically, their solicitation and acceptance.

In early 1975 the 24-nation Organization for Economic Cooperation and Development (OECD) established a Committee on International Investment and Multinational Enterprises to draft a proposed code of conduct for multinationals. As a result the OECD Committee drafted principles of behavior regarding MNCs, adopted by the OECD foreign ministers on June 21, 1976, and entitled "Declaration of OECD Member Governments on International Investment and Multinational Enterprises," as well as an annex on "Guidelines for Multinational Enterprises." In part the OECD Code:

- Opposes the payment of bribes by multinational corporations to foreign officials—as well as the solicitation of bribes.
- Calls on business firms not to make political contributions to candidates for public office or to political parties or political organ-



JOHN SPARKMAN is Chairman of the Senate Foreign Relations Committee. A leading Democrat from Alabama, Senator Sparkman also serves in several other key posts in the Senate—as Chairman of the Housing Subcommittee of the Banking, Housing and Urban Development Committee and as a senior member of the Joint Economic Committee. He has been in Congress since 1936, when he won his first major political bid for a seat in the U.S. House of Representatives.

izations, unless legally permissible.

- Directs enterprises to abstain from any improper involvement in local activities.

Last September the Senate Foreign Relations Committee approved Senate Resolution 516 supporting U.S. participation in the OECD Declaration on International Investment and Multinational Enterprises.

In the last analysis, reform of corporate behavior must be undertaken at the nation-state level, with individual governments exercising control and providing guidance to their citizenry, including corporate citizens. Last year Congress passed two measures with respect to foreign bribes: First, the 1976 Tax Reform Act provides that companies that pay bribes to foreign officials will have to pay tax immediately on the amount of the bribe. Second, the International Security Assistance and Arms Export Control Act of 1976 requires that a report be submitted to Congress within 60 days if the President determines that:

- Officials of a foreign country receiving security assistance have obtained illegal or otherwise improper payments from a U.S. corporation in return for a contract to purchase defense articles or services; or—
- Such officials extort money or other things of value in return for allowing a U.S. citizen or corporation to conduct business in that country.

The report is to contain a recommendation from the President as to whether the United States should continue a security assistance program for that country.

Not all aspects of corporate behavior abroad can be regulated by legal norms and procedures. There are practical questions such as the extraterritorial reach of U.S. law. In the business community, however, a new attitude of corporate responsibility is emerging. Multinational corporations are adopting their own codes of conduct. In 1975 the Chamber of Commerce released a statement called "Elements of Global Business Conduct for Possible Inclusion in Company Standards." In 1976 Union Carbide Corporation adopted a statement of "The International Responsibilities of a Multinational Corporation." Other companies followed suit. In all, there has been an overall effort by the business community to balance the rights and responsibilities of both nation-states and multinational companies.

### Free and Fair Competition

The United States firmly believes that free and fair competition is the best means to stimulate economic progress and higher living standards. To that end it has enacted and enforced antitrust laws to deal with practices that monopolize or restrain trade. While many other nations now have antitrust laws mainly designed for domestic purposes, increasing world economic interdependence gives these laws international significance.

Through the past years U.S. multinationals have found that foreign-based firms and their governments may cooperate in competing with U.S. firms for overseas business, while U.S. antitrust laws usually prohibit such activities among American companies and officials. As a result the United States is working with other governments to harmonize national antitrust policies affecting restrictive business practices and world commerce. Realizing that such harmonization is a gradual process, given the vast differences among nation's goals, laws, and practices, the United States is trying to ensure that American firms are not disadvantaged in world markets because of these differences.

In certain instances the United States has provided exemption to its antitrust law. The Webb-Pomerene Act of 1918 exempts from the operation of U.S. antitrust laws American firms that participate in joint association for the sole purpose of engaging in export trade. Almost all these joint associations were formed in product lines where the United States lacked a technological advantage.

The overall trend in antitrust policy among industrialized nations is to harmonize competition policy. Most industrial nations have expanded and strengthened their antitrust laws in recent years. As a consequence the disparities in antitrust laws among industrialized nations are diminishing.

Since 1961 the United States has been an active member of OECD's Committee of Experts on Restrictive Business Practices. This group now includes delegates from 22 industrialized nations, all of whom have some form of antitrust legislation. The United States aided in the drafting and the implementation of the 1967 OECD resolution which pledges member nations to consultations on antitrust enforcement actions affecting the vital interests of other OECD members.

The United States also helped draft and encourage the adoption of the 1973 OECD resolution. It calls for consultation and conciliation within the OECD framework to solve problems arising from cases where restrictive business practices adversely affect international trade. Further, the United States is already working with other nations on a *bilateral* basis with respect to strengthening and harmonizing their policies and laws concerning restrictive business practices, policies, and laws.

In mid-1976 the OECD adopted "Guidelines for Multinational Enterprises" which dealt in part with the harmonization of national policies on competition among multinational enterprises. Under these Guidelines enterprises should refrain from actions which would adversely affect competition in the relevant market.

In 1975 the United Nations Conference on Trade and Development (UNCTAD) invited U.S. delegates to a conference of a Committee of Experts concerning restrictive practices which might adversely affect developing nations. Representatives of the U.S. antitrust agencies and of the U.S. State Department participated in that conference. The representatives formulated a model antitrust act for possible guidance to individual developing nations in establishing their own national antitrust legislation.

### Taxation of Foreign Profits

In a world of separate taxing authorities, problems arise because the multinational corporation being taxed, or parts of it, may fall under the jurisdiction of more than one taxing authority. Ideally a multinational corporation would like to use its profits from a specific subsidiary in whatever way is most advantageous to its worldwide operation. Yet the host and home governments of the MNC feel they have legitimate taxing claims on such profits. The solution to this problem must recognize both the right of the enterprise to be free from excessive taxation and the right of different authorities to tax revenues.

The right to levy and collect taxes is one of the most sacred rights of national sovereignty, but there is no clear nor universally accepted theory of tax jurisdiction. Nor is there an international law that specifies who has the right to tax and sets limits to the reach of any country's tax jurisdiction. Business transactions across national boundaries, therefore, can be greatly influenced in both positive and negative ways by the problems or opportunities resulting from varying taxation policies of overlapping national tax jurisdictions.

The probability that two taxing jurisdictions may claim the right to tax the same property or income has stimulated governments to take unilateral actions in their own tax laws to provide credits for taxes paid abroad and to negotiate bilateral treaties with other countries to share the taxes.

Treaties for relief from double taxation are common and exist between many of the world's major countries, especially capital-exporting countries, and between them and certain of the less developed countries. However, more needs to be done by governments to promote multilateral treaties on double taxation, as yet unrealized. A model tax treaty drawn up by OECD in 1963 has been influential as a guide to countries when they negotiate bilaterally.

The multinational corporation is anxious to maximize profits by minimizing its tax liabilities, while each country wants to maximize its share of tax income without making taxes so burdensome that they restrict the expansion of business activity.

The trend in tax treaties appears to be for the host countries to impose taxes up to the rates imposed by home countries of the international business firm. More acceptance of this policy among nations can maximize the share received by the host country without increasing the tax burden on a company. Another trend is for nations to use tax exemption or low taxes as an attraction for international business activities. The effectiveness of such government policy is realized if the home governments of multinational corporations allow tax credits as if full taxes were paid.

While it seems unlikely that multinational corporations should ever be able to bypass the taxing rights of nation-states, a multilateral treaty on double taxation would be a first step to harmonize world tax policy. Similarly, the networks of bilateral conventions, and especially the drafting of model tax treaties, can and do remove many conflicts and stabilize the conditions under which international business operates.

**Facilitating Technology Transfer**

National policies in many different fields have a direct or indirect influence on international transfers of technology. In the industrially advanced countries, the prevailing philosophy is that rapid technological progress is encouraged through a patent system that gives the established owner of a certain new technology a monopoly over the use of the technology over a fixed number of years. In the less developed countries which have relatively dim prospects for promoting domestic research and invention, the issue of giving protection to technology rights looks quite different. To them the question is whether the adoption of a patent system will help or hinder the country's access to foreign technology on acceptable terms, necessary to development of society. In total the multinational corporation and developing country feel that they have certain rights over the conditions of technology transfer.

As a consequence national patent systems for protection of rights over technology do not universally exist, and where such systems exist the rights of foreigners to use the protection varies greatly. Considerable work is underway by such groups as the International Bureau for the Protection of Industrial Property to promote model laws and international agreements that will regularize the flow of technology under terms that protect the national interests of both the developed and less developed countries. International efforts are also underway to improve the flow of technology transfers to developing countries; but until an international agreement is forthcoming, the national and international environment for governing technology flows is likely to be complex and unstable.

Industrialized nations are working toward an answer to this complex problem. The 1976 OECD "Guidelines for Multinational Enterprises" set forth the industrialized nations' views on the transfer of technology. The Guidelines state, in part, that enterprises should:

- Endeavor to ensure that their activities fit satisfactorily into the scientific and technological policies of the host countries, and contribute to the development of national scientific and technological capacities to innovate.
- Adopt, to the fullest extent possible, practices which permit the rapid diffusion of technologies with due regard to the protection of industrial and intellectual property rights.
- When granting licenses for the use of industrial property rights or when otherwise transferring technology, do so on reasonable terms and conditions.

Developing and developed nations are also working within the UNCTAD Committee on Transfer of Technology, and its subordinate Group of Experts on a Code of Conduct, to work on an international accord on terms and conditions for the transfer of technology. Two draft papers have been introduced: The Group of 77 (the developing countries) submitted a proposal for a detailed and legally binding code, while the Group B nations (the industrial countries) submitted their proposals for voluntary guidelines for the transfer of technology. Because of significant differences, the joint draftings of the code have failed to gain approval. As a result of the May 1976 UNCTAD conference in Kenya, both the Group of 77 and Group B endorsed a resolution which calls upon all states to cooperate in evolving an international code of conduct for the transfer of technology, with a view to its completion by the middle of 1977.

Much work lies ahead for both the developed and developing world to meet the demands of worldwide economic interdependence and the international corporation. I have endeavored to point out where efforts are underway to achieve different methods of international cooperation with respect to the issues of corporate ethics, competition, taxation of foreign profits, and technology transfers. The process of international harmonization and cooperation has a potential benefit to all elements of the world economy, including the international corporation itself. ■

# THE POLITICS OF ECONOMIC INTERDEPENDENCE

## A View from Capitol Hill

*by Hon. Charles H. Percy*

**Appraising both positive and negative aspects of world economic interdependence, Senator Percy affirms that:**

- **Only through the continued increase of international economic interdependence can the world achieve the level of wealth and well-being its people desire.**
- **Long-term benefits of world economic interdependence outweigh short-term difficulties.**
- **Criticisms of economic interdependence must be examined and answered in the context of the evolution of international economics, rather than in any short-term framework of economic mercantilism or protectionism.**
- **The key question facing the industrial democracies is how to restore healthy growth in the world economy.**

The growth of economic interdependence since World War II has been the result of a new industrial structure encouraged by international institutions designed to promote the movement of economic goods across national boundaries.

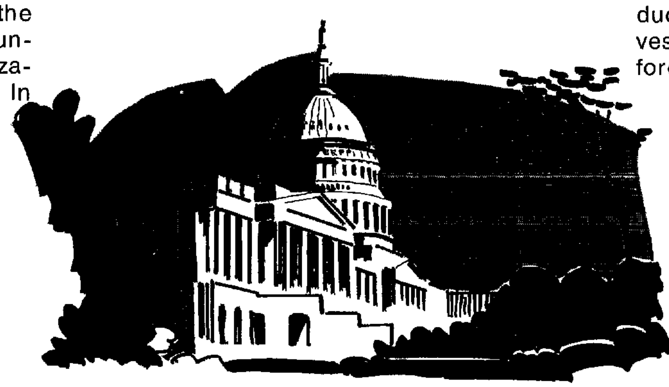
The process of world economic integration could only be reversed with severe economic hardship in the most advanced industrial nations. How rapidly integration continues will depend on the balance of domestic and international political forces. These political aspects of economic interdependence will, in the near future, slow but not stop further world economic integration.

### Long-Term vs. Short-Term Results

The argument for more economic interdependence rests on the belief that international economic specialization and integration provide the United States and some other countries with maximum efficient utilization of their economic resources. In such a system, all countries have the capability of developing comparative advantages in the utilization of capital, raw materials and labor. Advocates of economic integration see the United States, in particular, benefiting from accelerated world economic growth. As a major exporter of raw materials and high-technology products, the U.S. economy gains from demand generated by economic growth in other geographic regions. Furthermore, because other countries can produce certain goods at relatively lower costs than the United States, imports in an interdependent world economy are anti-inflationary.

But these are long-term economic results. A number of interest groups in the United States, mainly organized labor, have shorter-term economic interests to satisfy. They see economic interdependence resulting in a loss of U.S. jobs. They fear that foreign labor, in conjunction with U.S. capital, management and technology, will produce goods that will be imported into the United States to the detriment of domestic employment.

A second argument used against economic integration is that it redistributes national income from those who receive income from wages to those who receive income from capital. The argument is that capital is scarce in the world; and because capital is less plentiful abroad than in the United States, it receives greater returns when invested abroad and gives its owners greater income. Simultaneously, the productivity of American workers is seen as reduced because the capital is not invested in the United States. Therefore, it is argued, capital flows



CHARLES H. PERCY is now serving his second term as United States Senator from Illinois. A long and distinguished association with Bell & Howell preceded Senator Percy's 1966 election to the Senate, where he co-authored the 1974 Congressional Budget Reform Bill, now law. Senator Percy is a member of the Foreign Relations Committee, the Joint Economic Committee, and is ranking Republican on the Governmental Affairs Committee.

abroad should be halted and interdependence restricted.

A third argument centers on the capability of central governments to manage such a large integrated economy. It appears to many that the U.S. Government manages our economy only with great difficulty. They question how far the United States should commit itself to interdependence if we, as a Government, have difficulty managing our own economy. They ask, rhetorically, how we can manage an international economy three times the size of the U.S. economy.

Critics point out that during the last recession the major industrial economies were on the same business cycle. This was the first time since World War II that such a phenomenon existed. The result was a higher boom and a deeper recession than we had experienced in the past. Economic interdependence is seen by critics as eliminating the offsetting business cycles of the post-World War II period which provided some self-regulating capability to the world economy. They want a return to a simpler world or, at least, a halt in further steps toward more economic integration.

Economic interdependence is valuable because it expands economic wealth throughout the world. By expanding wealth, economic interdependence expands the probability of our having the economic resources to achieve our social objectives. In advocating this policy, I do not disparage the points raised by its critics. But these criticisms must be examined and answered in the context of the evolution of international economics rather than in the short-term framework of economic mercantilism or protectionism.

**Interdependence in the United States**

The United States began its economic life with local and regional markets, supplemented by trade with Europe and other continents. With the advent of the national railroad system, a national market emerged. The increasingly efficient use of resources, labor, and capital rapidly expanded the economic wealth of the United States. National markets produced national corporations, which in turn produced national trusts and monopolies that came to dominate U.S. business.

This structural change in U.S. business organization brought a political response in the Sherman Antitrust Act of 1890, the first attempt to guide the structure of the economic system, based on the belief that competition serves the national welfare better than trusts and monopolies. This structural reform is, of course, still in effect.

The global or multinational corporations, which came to prominence after World War II, provided a totally new industrial organization. Encouraged by more open national markets, cheaper transportation, and the freer flow of international capital and goods, corporations in the United States, Europe, and Japan devised global strategies for organizing resources and selling products. As in the case of national corporations, more efficiency was achieved and more wealth was created.

Today's economic debate concerns how to structure this new world economic strength, and how to divide the economic "spoils" of this new world organization. New wealth is being claimed by the home countries of the corporations, the host countries of the investments, and the multinational corporations themselves, along with labor unions through collective bargaining with the corporations.

**The Costs of Economic Readjustment**

Economic interdependence assumes readjustment in national economies. In economic theory, this readjustment is termed painless because labor is assumed to have perfect mobility. But workers know better. Economic readjustment potentially means unemployment for both management and labor in many affected industries—a social cost which, to the extent it cannot be eliminated, should at least be tempered by adjustment assistance and programs to encourage re-training and geographic mobility of workers.

Over the last 40 years, the United States has experienced major economic readjustments in the movement of the textile industry from the Northeast to the South, the migration out of Appalachia as the coal mines were mechanized, and rural to urban migration. This harshness need not be repeated on an international scale, nor do the personal costs need to be so high. We must anticipate the readjustments and devise programs to lower the costs to individuals. But we should not halt changes in industrial organization that bring increased wealth throughout the world.

The same logic prevails on the issue of who benefits when U.S. capital flows abroad to more productive uses. Why prevent this flow and inhibit the increase in world wealth? If we determine that income redistribution occurs in the United States because of U.S. investment abroad, and that this is an undesirable outcome, then we should redistribute such income by taxing it and transferring it to those damaged by overseas investment. It should not be a national policy to stop the efficient production of wealth because we do not find the resulting income distribution desirable.

**Coordinated International Management**

The issue of international economic management is a difficult problem. The primary factor necessitating economic coordination is the predominance of U.S. production and the U.S. domestic market in the world economy.

Coordinated management means sacrificing some national policy freedom for the greater good of the whole. But there is no easy way to make economic interdependence an operational concept among sovereign nations.

Yet we have seen a beginning in this process in the economic summit conferences in France in November 1975, and in Puerto Rico in June 1976. In the past two years, the non-Communist world has effectively reformed its monetary system and is renegotiating its trading system at the multilateral trade negotiations in Geneva. Economic coordination is now taking place through the Organization of Economic Cooperation and Development (OECD) in Paris, and through the Group of 10, a loose-knit organization of the largest nations.

The critics of economic interdependence will agree that the United States must trade for goods and raw materials essential to our economy and not produced domestically. An outstanding example is our estimated 40 percent reliance on imported oil. Many will also argue for a U.S. balance of trade surplus because it represents a stimulus to the U.S. economy and creates jobs. Organized labor favored open world markets for many years after World War II. It was only after the economies of Japan and Western Europe were rebuilt and became competitive with ours that a large proportion of organized labor turned protectionist.

Implicit in this protectionist attitude is the parochial belief that the United States can, to some degree, remain economically self-sufficient and independent of the world economic situation. But we cannot. As we consume our own national resources, supplies from abroad become progressively more attractive. To have the foreign exchange to buy abroad, the United States must sell goods abroad. Our needs and the desire to sustain our standard of living force us into a growing reliance on foreign supplies and foreign markets.

In addition, the major partners in our national security alliance—Europe and Japan—require economic interdependence. Japan is almost void of raw materials and energy, and Europe is heavily dependent on the importation of both. Therefore, in fostering a policy to construct a more interdependent world, the United States recognizes its own needs and those of its closest allies. Economic interdependence has meaningful political security ramifications well beyond U.S. domestic politics.

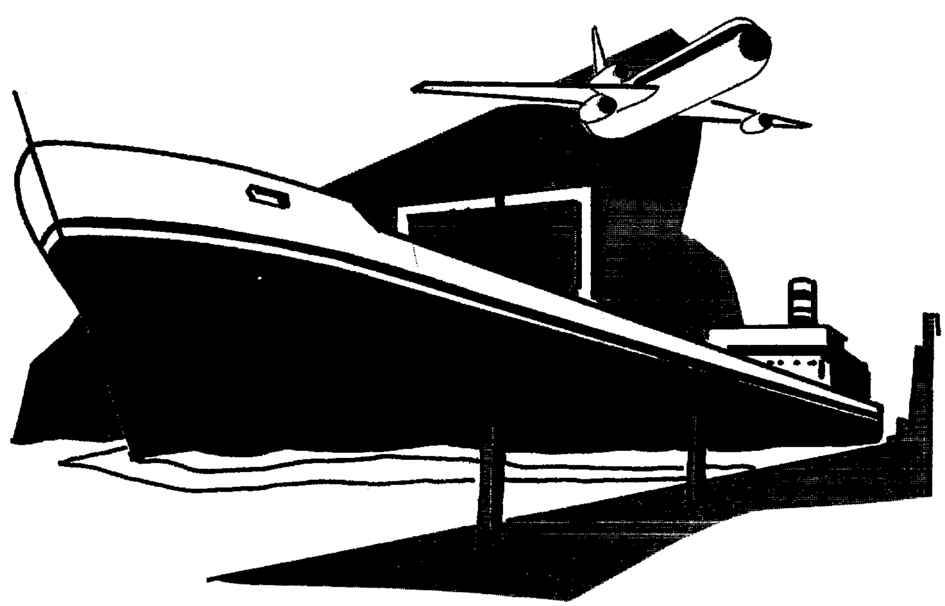
### Politics of Economic Interdependence

The politics of world economic interdependence are exceedingly complex. We are talking about integrating a myriad of political and economic systems into one economic system that can efficiently ration the supply of economic resources on an international basis among competing users. While it is an oversimplification, this problem can be seen as one of integrating *four* different institutional systems, each with its own structure of industrial organization.

There is, first, the United States, with its non-collusive oligopolistic structure associated with minimal government involvement in corporate decision making. Then competing with this system in international markets are three other major systems: a) the European system of recognized, legitimate, collusive cartels that operate with a minimal amount of government involvement; b) the Japanese system of government-sanctioned cartels with governmental "administrative" guidance; and c) the state trading systems of the Communist bloc countries, which in most cases are state monopolies run in close coordination with central government economic policies.

These four institutional systems have different objectives in terms of production units and government policy. Yet all compete in the same world market. It is not surprising that there are major conflicts among the national interests involved. What is surprising is how relatively well these problems are handled among the nations with these various structures.

While the national economic synthesis is far from perfect among the industrialized democracies, there are continuing national interests that favor negotiated settlements of differences. These ameliorating interests are not prevalent between industrial democracies and less developed countries or between industrial democracies and Communist bloc countries. Economic friction between blocs of countries is more visible, and rhetoric more strident.



Economic discussions between industrial nations and less developed countries are under way in the Conference on International Economic Cooperation (CIEC) in Paris and in the United Nations Conference on Trade and Development (UNCTAD). The basic contention of the less developed countries is that the international economic system based on a market structure is inequitable and favors industrial nations over raw materials producers.

The real issue concerns international resource transfers and economic development in less developed countries. Industrial nations have not provided economic aid to less developed countries at effective levels. As a result, the rhetoric of industrial nations in terms of official development assistance is no longer believed. And the less developed countries, for their own interests, wish to change the market price structure so they receive more economic resources. They see the OPEC nations as prime examples of less developed countries taking advantage of the price system to transfer economic wealth for development purposes.

### Integration Between East and West

East-West economic integration is much more difficult. It is not a matter of politics following economics, but of economics following politics. Economics in East-West diplomacy is used within the context of détente as a mechanism to achieve political goals. This fact adds complex overtones to the entire area of economic integration.

An example of this political complexity was the 1974 Trade Act and the important role in that piece of legislation of what became known as the Jackson Amendment. The Jackson Amendment tied the growth of East-West trade to the emigration of Jews from the U.S.S.R. This was an emotion-filled issue that caused severe political tension between the United States and the Soviet Union.

In the United States the politics of interdependence operate on two interrelated levels:

1. *Straight U.S. domestic politics.* There is a divergence of interests between groups in our society that benefit from the long-term evolution of interdependence and groups that consider economic adjustment caused by growing interdependence undesirable. Compromises will and are being made. When adequate government programming is too expensive or too difficult to relieve the personal costs of readjustment, then the growth of interdependence will have to be slowed. This is happening in sectors where "voluntary" import agreements have been negotiated, or where adjustment relief has been sought because of heavy import pressure. These arrangements will delay but will not permanently impede the continuing growth of economic interdependence.

2. *International Diplomacy.* The second level of politics is diplomatic. It concerns relations between our close economic allies in Europe and Japan; the North-South dialogue between the non-Communist industrial world and the less developed world; and East-West trade in the perspective of détente with the U.S.S.R. Each of these aspects of economic interdependence will have to be negotiated carefully. In the first two cases, negotiations are stalled because low levels of economic growth have created domestic political obstacles to compromise. In the area of East-West trade, political diplomacy will have to proceed further before economic relations with the Communist bloc countries can be broadened.

U.S. domestic politics and progress in international economic diplomacy indicate a slackening in the rate of growth of economic integration as experienced over the last two decades. The most prevalent common depressant is the slow rate of economic growth. Slow growth necessitates longer periods of economic adjustment. Pressure for more rapid adjustment during periods of slow growth results in increased political pressure to impede the integration process. The rate of growth in economic interdependence has a direct relation to economic growth, and its growth rate will be restored only when growth is restored in the world economy.

### Remedy for Restoring Growth

The key question facing the industrial democracies is how to restore this growth. The effort to restore the growth should not be for reasons of fostering more interdependence; that will come as a by-product of growth. We need growth to employ people and to fully use the potential of the economic resources our society has available. Low growth means 7 to 8 percent unemployment and billions of dollars lost each year.

There are only three countries in the world that have the economic strength to stimulate growth—Germany, Japan and the United States. However, acting independently, neither Germany nor Japan have large enough economies relative to the world to pull up growth rates. The United States might have this capacity, but it would risk a return to double-digit inflation acting alone. What is needed is a cooperative trinational effort to stimulate economic recovery in the OECD countries.

Any attempt at such a cooperative recovery will be short-lived if two policy decisions are not made prior to this effort:

1. That the three healthy economies be willing to finance the world recovery with large enough current account deficits on their balance of payments to absorb the OPEC current account surpluses. This will allow the growth stimulus to ripple out of the three domestic economies and stimulate the world economy.

2. That there be an international energy policy. Any sustained OECD growth at an average of 5 or 6 percent will cause an oil shortage in the mid-1980's. Any such shortage will put the industrial nations back on their financial knees. The greatest user of energy in the world is the United States. Therefore, it is we who must have the political will to put into place stringent energy controls. Until this is done, other industrial countries have no reason to sacrifice, and the possibility for sustained growth will be severely compromised.

A stringent U.S. energy policy stands as the first order of business for rebuilding the world growth rate. Closely linked to it will be a willingness by the Big Three to accept current account deficits and cooperative programs to stimulate their domestic economies. None of this will be easy. The political hurdles are many. We face the task for the first time in history of how to translate political economy into an operational policy of economic interdependence. ■

# INTERDEPENDENCE AMONG GOVERNMENTS

## Key to Managing the International Economy

*by Hon. Henry H. Fowler*

**Interdependence stands to lose its viability unless the industrialized democracies through their intergovernmental institutions work collectively toward an efficient management of the international economy. Secretary Fowler emphasizes that:**

- **Intergovernmental coordination of economic policies is imperative to a vital foreign policy;**
- **Interdependence can function only as effectively as the industrialized democratic countries manage their administrative machinery;**
- **Consistent decisive leadership extending, in part, to the multinational enterprises would mean "a sharing of the benefits of the international economy" with the developing poor-resource nations; and—**
- **In sum, to foster "peace with freedom," it is crucial "to organize and institutionalize a collective political management of the international economy."**

"Interdependence" has been a guiding principle in the conduct of U.S. foreign and national security policies for over three decades and through seven Administrations—those of Presidents Roosevelt, Truman, Eisenhower, Kennedy, Johnson, Nixon, and Ford.

All these Presidents have believed that America has had a vital stake in conducting a foreign policy designed to achieve peace with freedom: not a temporary peace through retreat into isolationism, but a peace with a real chance to endure. Despite setbacks and the divisive years of Vietnam, this policy has remained remarkably consistent and yielded enormous rewards—for ourselves and others.

Further, all these Presidents have realized that no such policy is viable without the bipartisan support of the U.S. Congress and the American people—from the successful completion of World War II, through the launching of the Marshall Plan, to year-by-year support of defense and aid programs, and the establishment of international organizations such as NATO, the World Bank, and the International Monetary Fund (IMF).

The economic aspects of U.S. foreign policy assume greater and greater importance. Many serious threats to the goals of our policy are economic in nature—e.g., global inflation, global recession, trade wars, "economic nationalism," boycotts, oil embargoes, expropriation, and international monetary crises.

So, now, the success of U.S. foreign policy depends increasingly on the interdependence of government and business, sharing, as they do, a joint stake in international finance, international investments, international trade, international monetary and energy problems. Whatever the degree of understanding and cooperation between the two in the past—and there have been both pluses and minuses—there will need to be further improvement in the period we are now entering.

But even that will not be enough. There must also be interdependence of government and international institutions—the U.S. and others. And this is the crucial area that I want to explore here.

### New Directions Needed

It is imperative to recognize the grave need for more effective leadership at the Chief of State level in the intergovernmental coordination of the economic policies of the major industrialized democracies.

Had there been an "international summit" back in 1974—when double-digit inflation was raging in the OECD countries—we might have been able to hammer out a common program of action designed to bring the international economy back to some acceptable norm of price stability without a worldwide recession.

Had there been effective harmonization on coordination of economic policies between the governments of the industrialized democracies in 1972 and 1973, the unwitting stimulation of excessive demand without provision for adequate and reliable supply with the consequent double-digit inflation could have been avoided.

There was no summit; there was

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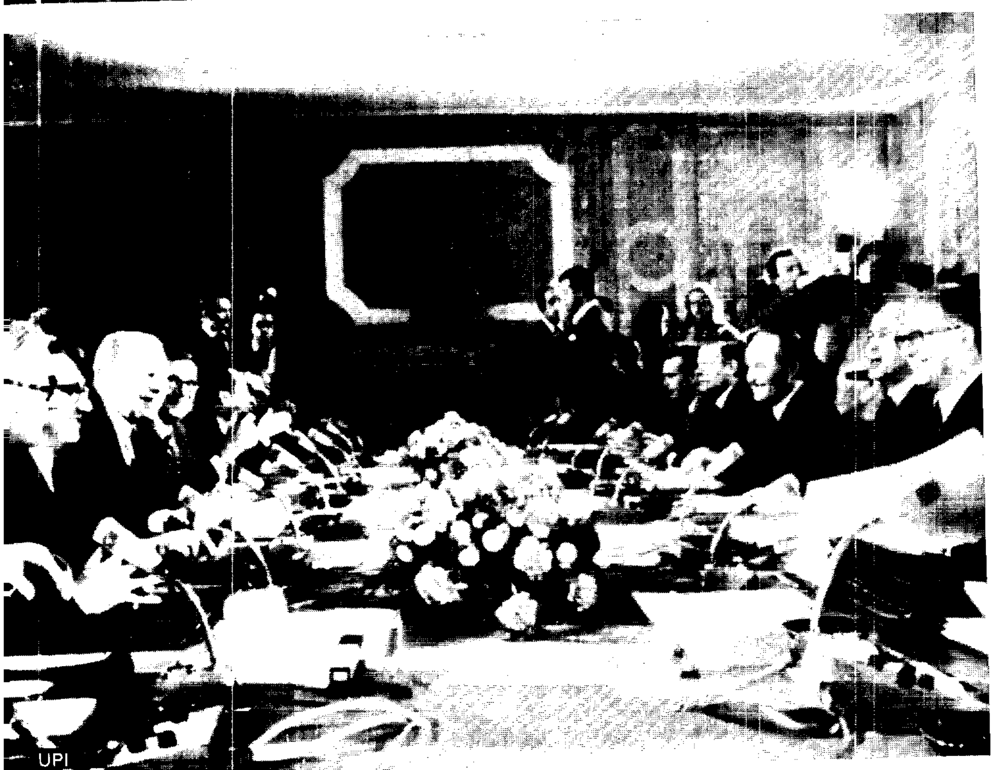



"It was not until November 1975 that a summit to tackle these problems took place, at the suggestion of President Giscard d'Estaing of France, attended by the Chiefs of State of France, the Federal Republic of Germany, Japan, the United Kingdom, Italy, and the United States."

no common program. There was severe global inflation. In the nine months from October 1974 through June 1975 there was the sharpest decline in output and the highest unemployment in the countries making up the OECD since the period immediately following the end of World War II. Consumer prices continued to increase at an annual rate of about ten percent overall in early 1975, despite the impact of recession. The international monetary system was in a shambles, and relations of the developed nations with the Third World were in a rapidly deteriorating state.

It was not until November 1975 that a summit to tackle these problems took place, at the suggestion of President Giscard d'Estaing of France, attended by the Chiefs of State of France, the Federal Republic of Germany, Japan, the United Kingdom, Italy, and the United States.

This meeting was held in France. Then seven months later (June 1976) there was another, attended by the same leaders, plus the Prime Minister of Canada, in Puerto Rico.

These two meetings are a first in modern times. Nothing like a consultation meeting on economic policy of the Chiefs of State, representing nations whose economies are responsible for 70 percent or more of the Free World production, trade, monetary reserves, or transnational investment, had ever been held.

No single meeting or series of meetings is likely to provide ultimate solutions. Miracles are not wrought at international conferences as the recent meeting of the International Monetary Fund and World Bank in Manila has illustrated. Expectations of instant results should not be indulged.

But, at a minimum, these meetings can serve as more than symbols of a common desire to achieve jointly arrived at objectives and coordinated activity. They can lay the base for the day-to-day, week-to-week, month-to-month acts of consultation and cooperation at various intergovernmental levels following a given "summit" and before and after future "summits."

The mere fact that these "economic summits" have been held—and the nature of the problems that crowded their agenda, reflected in the communiques and indelibly fixed in each of our memories of the turbulent first half of the 1970's—suggests the timeliness of a thorough assessment of the problem of management of the international economy and ways and means of improving it.

### Global Policy Initiatives

Perhaps the most important task facing the leadership of the democratic, industrialized nations is improving the functioning of the institutions established to manage the international economy through intergovernmental cooperation and creating new ones where the need exists.

The regularized process of exchanging views on the functioning of the international economy and related national economic policies and inaugurating specific agreed programs to deal with specific problems through multilateral organizations has become deeply ingrained in the post-World War II era. These exchanges sometimes include mutual surveillance and give rise to a limited degree of cooperation.

Indeed, in the IMF, World Bank, GATT, OECD, Group of Ten, and BIS, as well as other international organizations in which the major industrialized nations are active members, there is already a considerable administrative machinery designed to promote particular phases of international economic cooperation.

But the coordination of national decision making in many vital economic areas where the problem to be solved is beyond the reach of a single nation has not always been produced by the existing machinery of intergovernmental cooperation.

A new dimension, a new creative approach to the management of these institutions is needed, and in some situations new initiatives are needed. A striking example is the contemporary problem that seems to have prompted the recent economic summits.

A regularized process of coordinating national decision making to minimize worldwide inflation, avoid worldwide recession, and achieve and maintain an adequate rate of non-inflationary growth had not been meaningfully instituted, much less institutionalized.

While much was discussed and analyzed in the OECD and the IMF meetings, governmental responses in the field of domestic fiscal and monetary policy have all too often been based on purely national economic or local political considerations, with little or no regard for their collective international impact.

Money supply, interest rates, budgetary deficits and surpluses, and many other factors related to business cycle adjustment, stabilization, adequate supply, and equitable distribution of basic materials—these have been handled without meaningful coordination between the major democratic industrialized nations. This situation is no longer acceptable.

There are many other topics crowding for a place on the agenda. Many result from past accomplishments in international cooperation. To name a few:

- Persistent improvement of the international monetary system to improve the adjustment process and achieve effective control over the growth of international monetary reserves.
- Continuing assault on trade and non-tariff barriers.
- Avoidance of selfish restraints on exports that are destructive of responsible and equitable supplier relationships.
- A larger volume of multilateral assistance by the developed and oil-rich countries to the less developed non-oil producing nations, and more effective use of these transfers of resources.
- Solution of the incipient conflict in the development and use of world energy and raw material resources.
- Achieving a proper balance between national interests and the multinational corporation that will give the latter the opportunity to play its role in international economic development.

### Toward Efficient International Management

But as the Interim Report of the Special Committee of the Atlantic Council on Intergovernmental Organization and Reorganization entitled *Beyond Diplomacy* points out:

"Other needs and opportunities for international cooperation do not necessarily flow from past experience and do not have the advantage of momentum from the activities of well established international institutions. To seize these opportunities requires imaginative leadership, original action, and new international policy, as well as important national decisions by sovereign political authorities that add up to joint decision making that promotes rather than frustrates common interrelated efforts."

Foreign direct investment and multinational enterprises do not have international rules or institutions such as have governed world trade with great success. There is no GATT for investment, although the volume of international production by transnational enterprises approaches that of world trade.

Also, new arrangements seem required in some areas of commodity trade if access to adequate supplies is to be available, equitable terms are to be assured to consumers, and price swings damaging to producer and consumer alike are to be minimized.

Further, some action to assure the adequate flow of investment capital to additional supplies of certain vital raw materials in the less developed countries seems increasingly necessary if the alternative, resort to extremely high cost sources in the developed countries to the disadvantage of both, is to be minimized.

Yet we simply do not have a system capable of the timely formulation and execution of mutually advantageous programs of international cooperation to deal with these problems and opportunities—and they can be dealt with satisfactorily in no other way.

*Collective Management Required.* It is increasingly recognized that one of the major problems in managing the international economy is the absence of consistent decisive leadership in the international institutional arrangements necessary for its functioning.

In the words of Mrs. Miriam Camps in her book *The Management of Interdependence,* the management of the international economy "calls for a great deal of highly sophisticated collective management reaching well down into the domestic area, for it is here that 'interdependence' has gone the furthest and is creating the most serious problems. The 'real' world of banking and industry has joined the economies of the highly industrialized countries; rules and organizations exist but governments have yet to adapt them or to create new instruments of supervision and control to match their objective interdependence."

This is not a reflection on the many outstanding Secretaries General, Managing Directors, and Presidents of the existing international institutions who necessarily depend for their power, authority, and resources on the political leadership of the nation-states who are members of the international organizations. It is clear that the task is beyond the authority and resources of international civil servants, no matter how competent and farsighted.

Of course, the international institutions, through their top officials and staff, can and should seek to involve the officials or member governments. But given the most effective performance on this initiatory and consultative level by the managers of the international institution, the effort will fall short without affirmative collective leadership from member governments.

Action to secure this affirmative collective national leadership has two dimensions:

*First,* the governments of member states and the international institutions must be organized in such a fashion as to interrelate the persons most clearly responsible for national decisions in the substantive area involved very actively in the affairs and decisions of the international institution.

*Second,* there must be leadership from a nation or group of nations if the initiatives necessary to effective management of the international economy are to be taken in timely fashion.

*U.S., Western Europe, and Japan.* It has become increasingly clear in recent years that a new steering mechanism, structured out of the organized collective leadership of the United States, the European Community or its principal member nations, and Japan, must become to the management of the international economy what the leadership of the United States was in the period past.

No single country or limited geographical group should attempt to provide the leadership to the international economy alone. Collective leadership with all of its problems and headaches is the requirement of the times.

Of course, the United States must still play an important participatory role in this collective leadership. It is the world's largest economy, playing a key role as a trader and financial power. It is the source of at least one-half of the world's foreign direct investment, a major supplier of food and technology, and the largest user of raw materials and energy.

But the present domestic political orientation in the United States, the attitude of other countries toward any assumed dominance of a single nation, the position of Western Europe as the largest trading unit with the largest pool of monetary reserves, and the emergence of Japan as the second largest industrialized democracy with a key position in East Asia—these and other factors suggest this tripartite collective leadership in the management of the international economy.

These democratic societies of Western Europe, North America, and East Asia are already bound together by common security, political, and economic interests. The nations with industrialized market economies, or with mixed economies still predominantly private, have reached a point of economic interrelationships where they must either forge more effective methods of collective management or cut back on steadily increasing interdependence with the risk of a turn-back to autarchy or economic isolationism and the consequent inefficiency and insecurity.

This rapidly growing interdependence among the industrialized democracies, plus the emergence of transnational networks of banking, finance, and industry, the growth and position of multinational enterprises and other transnational economic associations, have already involved these nations in a core system within the international economy.

That core system increasingly includes nations which are in an intermediate stage of development or which are key sources of energy and other essential raw materials. Moreover, the core countries have assumed special responsibilities to bring increasingly to the inadequately developing poor-resource nations of the Free World a sharing of the benefits of the international economy.

In short, those nations that have already accepted in good measure the special obligations and responsibilities for observing the rules and practices of the international economy to the benefit of their peoples are best positioned to do more in developing its better mangement.

As for the all-important task of institutionalizing continuing consultation and some joint or coordinated decision making on the management of the international economy by the heads of key governments and their top ministers, it must be emphasized that the summit meetings in France and Puerto Rico, however welcome, are not enough. They are only a recognition of the task ahead.

At least three additional steps should be considered:

1. *The OECD should be converted into an instrumentality more readily adapted to facilitating the coordination of economic policy among the developed countries.*

2. *The governments of the principal industrialized democracies should organize a new and comprehensive process of timely advance consultation on the management of the international economy.* (This does not require the establishment of any new international institution. There are already available for consultations such global economic organizations as the World Bank, IMF, GATT, and economic bodies of the United Nations.)

3. *The top political leaders of the major democratic nations in Western Europe, North America, and Japan should, in a follow-up to the experiment with economic summits at Rambouillet and Puerto Rico, inaugurate a series of regularly scheduled meetings with some significant modifications designed to institutionalize them.*

## Leadership from the Industrialized Nations

In an interdependent world there are many tasks central to the realization of basic human values and the avoidance of threats to internal economic and social stability—tasks which increasingly transcend national borders. No government today can adequately discharge its responsibilities solely by its own efforts.

Failure to harmonize the exercise of sovereignties to meet some of those crucial problems confronting the international economy is to forfeit one of the essential attributes of national sovereignty in the world in which we live.

National leaders throughout the world—and the top political leaders of the major industrialized democratic societies in particular—face the pressing task of determining the scope, extent, nature, adequacy, and desirability of international or intergovernmental arrangements to deal with problems of the international economy which transcend national frontiers.

Only political leaders at the highest level can effectively direct the negotiation of these arrangements and their political processing under the particular form of national government involved.

Only these leaders at the highest level can strike the balance in these determinations between the international goals and the safeguards necessary to preserve national and regional values.

If the democratic industrialized nations should continue to follow the laggard, haphazard pace of ad hoc efforts to develop up-to-date intergovernmental coordination for dealing with pressing problems that are beyond the power of a single nation to solve, that would be to default on the responsibilities of national sovereignty.

In these perspectives, a new and heavy burden rests upon the Chiefs of State and top political leaders of the major democratic industrialized nations—to organize and institutionalize a collective political management of the international economy. ■

# Development Policy and the Interdependence of the Western Hemisphere

*by H. E. Alejandro Orfila*

**The Secretary General's article is based upon an address given in September 1976 before the Joint Council Quarterly Meeting of IMDI's diplomatic, corporate, and government associates. Highlights of his remarks include:**

- **The United States and Latin America have already achieved a significant degree of interdependence in security relationships.**
- **The future of a hemispheric relationship hinges in large part on the outcome of the forthcoming special OAS Assembly.**
- **Private enterprise can and should play a major role in harnessing its productive resources to national development plans.**
- **Interdependence promises a rich variety of plans and options, offering a better future for all citizens in our hemisphere.**

Interdependence is not and should not be only the concern of governments. It concerns us all in the sense that our lives are increasingly intertwined with others'. Dependence is no longer the one-way relationship which, until today, has given the word its derogatory connotation. Rather it is multidirectional. We all depend increasingly on each other. This makes even more urgent and pressing the need to restore, develop, and maintain the mutual understanding that binds societies together both at the domestic and international level.

### Toward Mutual Interdependence

As far as this hemisphere is concerned, despite a checkered history in which ill-will, neglect of each others' interests, and outright aggression have at times marred relationships, our people today live in a region that is the most peaceful on the globe.

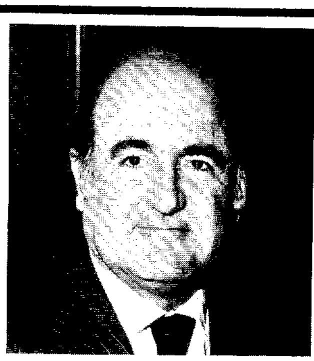
This indicates that in certain respects, Latin America and the United States have arrived at a commonality of interests; they have built up a significant degree of effective interdependence in security relationships and linkages.

However, as far as accepting the complete meaning of the concept of mutual interdependence, I believe our nations are at a turning point. Either they can move forward to an unprecedented sharing of resources, talents and strengths, or—if they fail to respond to the new agenda before the Americas—they could well find their growing record of cooperation turning increasingly into unproductive paths.

The challenge before us is to suggest new forms and dimensions that inter-American relations might take, to the mutual advantage of all our countries.

### Integral Development— The Central Issue

Today, integral development has become the central issue before the hemisphere. By the end of this century, Latin America will have 600 million people—double its current population. How to feed, clothe, educate, employ, and build a more



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human future for this incoming generation is the overriding question on the minds of countless Latin Americans. This is where attention must be focused.

Just a few years ago both Latin America and the United States seemed on the verge of sharing a general identity of interest in developing an agreed upon response to this challenge. In the mid-1950's, a number of responsible and authoritative Latin American voices proposed that our nations pool their efforts in an attempt to promote hemispheric development through new international and financial arrangements and through broad structural reforms of Latin America's economic and social systems. In consequence the hemisphere found itself with such visionary yet practical proposals as Operation Pan America and the countering U.S. response of the Alliance for Progress.

Unfortunately, however, as the hemisphere began to feel the impact of these new cooperative efforts, it became increasingly clear that a shift in the forms of cooperation was not leading to better mutual understanding between the two halves of the hemisphere.

### Diverging Priorities

For Latin America, a focus on foreign financial assistance or on internal restructuring of economies and societies proved inadequate in responding to burgeoning development needs. Latin American societies concluded that their development concerns were often at variance with those identified by the United States.

Latin American nations found that their priorities were centering on such urgent needs as export development; gaining greater access to U.S. markets for both their primary and manufactured commodities; seeing that technological transfer took place so as to help develop their national scientific and technological infrastructure; regionalizing the economic systems and markets within Latin America; reducing enormous debt burdens created by external financial assistance and finding alternative forms of development financing; and encouraging both domestic and foreign private investment, while formulating rules of conduct for the operation of multinational corporations in our societies.

The United States, on the other hand, continued to focus its interest on the maintenance of a stable region which would welcome investment and provide a good market for U.S. goods.

It was not that the United States and Latin America did not share many of the same concerns. The United States, in fact, recognized specific components of this new agenda which was emerging not only in Latin America but in other developing regions as well.

This led to a feeling in Latin America that the United States was reluctant to confront the overall development challenge in its major dimensions. Inevitably, sharp confrontations arose within the Inter-American Economic and Social Council and elsewhere between Latin America and the United States.

### New Hemispheric Development Agenda

This U.S. hesitancy to deal with the new hemispheric agenda in other than piecemeal fashion has been changing in important ways. Since 1974 Dr. Henry Kissinger provided critical leadership on development questions in the forums of both the United Nations and the OAS. In addition, various committees of the U.S. Congress have worked and are working to re-examine the overall framework of U.S.-Latin American relations.

It is important to recognize that as Latin American countries further define their contemporary development agenda, they are increasingly establishing a greater sense of interdependence with one another.

To identify and cope with their mutual problems, they have established such bodies as CECLA—the Latin American Special Coordinating Commission. This Commission helped create the *Latin American Consensus of Viña del Mar,* a document which consolidated hemispheric thinking about development. The Consensus of Viña del Mar focused on the need for Latin American countries "to reach solutions born out of their own criteria which reflect their national identity." It insisted that "the economic and scientific-technological gap between the developing and the developed countries has widened and is continuing to do so."

With such perspectives Latin America has continued, both within and outside the OAS framework, to develop a series of coordinating commissions and bodies that seek to stake out policies and positions on which our countries can agree. Latin America believes that once it has determined its own needs and priorities, it will be in a much improved position to negotiate equitably with the United States.

### New Development Directions

In that context the United States and Latin America are due to meet in a special OAS General Assembly oriented entirely to establishing new directions for cooperation on development. The decision to convene this conference may, in itself, mark a breakthrough in the hemispheric impasse over development. This meeting offers our nations an unparalleled opportunity to move off in a new development direction—not at odds—but together.

There are some preliminary indications that this Special Assembly should, among other matters, focus on such problem areas as:

- *The expansion and diversification of trade, not only within the Americas, but between Latin America and the world economy.* Latin America is the third largest market for U.S. products, behind Canada and Western Europe. But the fluctuations in income for its countries—where 15 primary commodities make up half of its merchandise exports—create serious obstacles to hemispheric development. Latin America is also concerned because its own exports have generally been increasing at only about half the rate of those of the industrialized nations.

  Ways must be found to encourage the industrialized countries, especially the United States, to offer better access for Latin America's products, including both basic commodities and manufactured goods. Mechanisms must also be discovered for financing the import and export capabilities of the Latin American countries.
- *The role of multinational corporations in Latin American development.* There is considerable hemispheric interest in establishing a

**"The challenge before us is to suggest new forms and dimensions that inter-American relations might take, to the mutual advantage of all our countries."**

"code of conduct" for multinational corporations. This will have to be balanced by recognition of the needs of industry, whether public or private enterprise, for a stable economic climate with good long-range prospects for appropriate investment return.

- *The transfer of technology.* During the past decade this process has become one of priority importance to Latin American countries, with the OAS providing significant leadership and the United States indicating a willingness to address the question in a broad manner. It is vital for the development future of the hemisphere that the transfer of technology involve a cooperative relationship between industry, government and science so that new technologies introduced contribute not only to building up new markets but also to strengthening the scientific and technological infrastructures of the nations.
- *More comprehensive ways to promote cooperation among the Latin American countries themselves within the inter-American framework.*
- *The flow of external financing.* Some OAS countries are concerned about the enormous debt burdens confronting them. Others are fearful that the redirection of world financial resources in recent years has slowed down their infrastructure development in such areas as power, transportation, and communication. These issues must be dealt with openly and frankly.

The vital significance of the OAS Special Assembly must be brought home to the new U.S. Administration and Congress. Latin America is convinced that much of the future of our hemispheric relationship hinges on its outcome. Were the United States to view this Assembly in the same light and with the same seriousness, prospects for its success would be strengthened.

### The Promise of Latin America

The "new" Latin America holds out far-reaching implications, not only for its relationships with the industrialized world, but also for the future role which private enterprise can and should play in harnessing productive resources to national development plans.

It is hardly news that Latin America is currently considered one of the world's most attractive investment and marketing regions. Domestic demand for goods and services is soaring. This should vastly increase as the region's population of 300 million and its combined gross national product of $225 billion continue to grow over the next 25 years.

If private enterprise, including the multinational corporations, can learn to accept and live creatively with the new hemispheric development agenda, it can render enormous contributions to our societies. Working together, governments and private enterprise can find ways to establish conditions which give business reasonable prospects for efficient operations. If they are to contribute effectively to long-range development, private companies must have prospects for a stable future.

Interdependence must become the hallmark of the Americas. This term need not be a sterile, empty word. It can promise a rich variety of plans and options. There are new interdependent currents and trends at work in our hemisphere. Whether we ride these new development waves toward a better future for all Americans—no matter where they live—or whether these waves will be allowed to crash over our relationships and create hemispheric disharmony is the critical choice ahead. I have a firm conviction, based on our history together so far, that we can and will make the right choice for the future of the Americas. ■

# Interdependence and

# A View from the United Nations

*by Klaus A. Sahlgren*

**TNCs, central actors in the world movement toward interdependence, are the focus of a four-point program designed by the U.N.'s Centre on Transnational Corporations. Mr. Sahlgren, the Centre's Executive Director, describes:**

- **The priority task to establish a code of conduct regarding TNCs;**
- **The computerized information system "to further the understanding of the various activities of the TNCs";**
- **The need for research work analyzing the policies and impact of TNCs in developing countries;**
- **The importance of an effective technical cooperation program aimed at strengthening the negotiating capability of the developing countries; and—**
- **The need to "reduce significantly the areas of contention and work out durable solutions which are in the long-term interests of all."**

Several trends have in recent years converged to bring the question of transnational corporations (TNCs) to the United Nations. In the search for ways and means of promoting international development—which is one of the U.N.'s important tasks—it was inevitable that the role of TNCs should be considered. Not only are they central actors in international economic relations, but their importance has grown in recent years at about twice the growth rates of the industrialized countries, and faster than world trade in general. Managerial and marketing skills, advanced technology, new products, and access to capital tend to be associated with TNCs. They operate the bulk of the world's foreign direct investments and thereby have capabilities which can be put to the service of development.

These distinct capabilities of the TNCs, facilitated to a large extent by centralized decision making and a global network, are in principle recognized by both developed and developing countries. However, TNCs became sources of apprehension when it became apparent that their global strategies do not always take into account the national objectives of host countries. Furthermore, the possibility that affiliates of TNCs could escape national policies, control essential resources, and conceal transfers of funds troubles many host countries. Incidents of political interference, however isolated, and recent revelations of corrupt practices do not contribute to an atmosphere of trust. Home countries, and the investors themselves, also became aware of the need to reconcile conflicts of interest and jurisdiction, while at the same time providing a stable and reasonably encouraging investment environment.

All this led to the involvement of the U.N. in the complex issues related to the TNCs. There was an additional reason; namely, the international community has not yet succeeded in drafting a framework for foreign direct investment. Similar rules, however, do exist for international trade and monetary relations (GATT, IMF), and they have, in spite of their inadequacies and present state of flux, served the world community well. There is clearly a need for some kind of ground rules for foreign direct investments.

In the modern world no international economic issue can be treated in isolation from the notion of interdependence between industrialized and developing countries. Moreover, it is now widely accepted that a new concept of global equity and a higher degree of economic stability are prerequisites for world peace and a secure investment environment. The problem is, essentially, to move from confrontation over short-term conflicting interests to cooperation in the pursuit of common long-term goals.

### Attitudes of Developing Countries

It is well known, though at times forgotten, that the developing countries have 70 percent of the world's population but consume only 30 percent of its resources. Moreover, the gap between the rich and the poor countries continues to widen, despite the progress of technology. The growing dissatisfaction of the Third World with the gross inequities associated with the present international economic system is therefore comprehensible.

There is, of course, a fundamental divergence of opinion to the possible solutions. In the industrialized market economy countries, the prevailing view is that steady growth and high employment in the developed countries are essential conditions for the economic progress of the poor countries. According to this view, the market economy forces, kept in check by an enlightened public opinion and democratic procedures, and operating through improved channels of aid, trade, and investment, are able to produce the greatest possible good for the greatest possible number.

On the other side, however, an increasing number of developing countries, having lagged behind even

# Transnational Corporations

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in those years when the Western economies were growing rapidly, have lost faith in the present economic system. Not only do they demand a more equitable distribution of resources, but also they call for an overhaul of some basic mechanisms. They feel that this would also be in the best economic and security interests of the industrialized countries. The United Nations debate on, and quest for, a New International Economic Order can be seen as an effort by the developing countries to alert world opinion to the existing inequities and to the need to change the rules of the game. The General Assembly, the meetings of the United Nations Economic and Social Council (ECOSOC), and the conferences of the United Nations Conference on Trade and Development (UNCTAD), provide the fora for this legitimate and necessary process. It could be called the strategic or long-run approach. These long-term strategic discussions in the United Nations are, despite controversies of both a substantive and rhetorical nature, producing results over time.

### Results at the U.N.

The work on transnational corporations, because of the TNCs' important role in the world's economy and development, cannot take place in a vacuum. The description of their role as well as efforts to set ground rules for them or to equalize somewhat the bargaining positions must, as a matter of course, take into account and be affected by the evolution of the world economic system as a whole. In other words: there is both need and room for a modus vivendi whereby the TNCs' positive contributions can be enhanced and their undesirable effects limited or eliminated.

It is this pragmatic negotiating approach which prevails in the intergovernmental United Nations body dealing with these issues, the Commission on Transnational Corporations. To date, all its decisions have been taken by consensus, without a vote, although at times after considerable negotiation and bargaining. The Centre on Transnational Corporations, which is the Commission's secretariat and executive arm, certainly intends to go about its tasks in a strict spirit of neutrality, integrity, and objectivity. The work program of the Commission and the Centre on Transnational Corporations consists of four main, mutually supporting parts. As a priority task, a code of conduct for TNCs is being prepared. Second, a comprehensive information system on TNCs is being established. Third, a number of problem-oriented studies have been initiated. And fourth, there is an important technical cooperation program aimed at strengthening the negotiating capability of the developing countries. All this is being done in cooperation and coordination with other parts of the United Nations system. The uniqueness of the Commission and the Centre lies in the fact that they have been charged with dealing with the full range of questions related to TNCs in a global, comprehensive way.

### Code of Conduct for TNCs

Regarding the code, so far governments have agreed upon two points. First, they have declared that whatever its legal nature, it should be effective. Second, the machinery and timetable for its negotiation have been established. The machinery consists of an intergovernmental working group which will be assisted by a group of some 15 persons with practical experience in business, trade unions, consumer groups, and academic circles. The work began in January 1977 and should be completed in the spring of 1978. Many central and presumably difficult issues regarding the code will have to be negotiated.

Should the main objective be to establish a set of rules related to TNCs, or should the focus also be on the creation of an investment climate?

Who should be the targets—enterprises or governments, or both? What enterprises should be covered

—privately-owned TNCs or also mixed public-private and state-owned corporations? Should the code be universal—the same for all —or should certain groups of countries, such as the least developed among the developing countries, be treated differently?

Should it be a legally binding instrument or a set of voluntary guidelines or a combination of the two?

Is a mechanism of surveillance desirable, and what powers or sanctions might be used?

The question of the degree of specificity of the provisions of the code, and the possibility of differentiated treatment of sectors of economic activity, are the other major issues that still await resolution.

Substantive areas that are candidates for coverage by a code include such rather general matters as the relation of TNCs to local laws and socioeconomic objectives; abstention from corrupt practices; and disclosure of information. Candidate areas of a more political nature are interference in the domestic decision making in host countries as well as reliance on home countries in cases of disputes with host governments. Finally, there is a very substantive list of economic and commercial matters, such as transfer pricing, taxation, restrictive business practices, transfer of technology, and employment questions. However, any viable solution will have to strike a balance between a code which is so general as to become meaningless and a code which is so specific as to become unacceptable to too many and thereby equally meaningless.

**Information System on TNCs**

With regard to the second main area of work, information, there is clearly a need to know more about the transnational corporations both individually and generally. The comprehensive, computerized information system which the Centre on Transnational Corporations is presently establishing is designed to further the understanding of the various activities of the TNCs, to secure effective international arrangements for their operations, and to strengthen the negotiating capacity of developing countries. A first step is a comprehensive survey of relevant information from all publicly available sources as well as an assessment of the feasibility of obtaining information, not publicly available, in view of the constraints imposed by legitimate business confidentiality.

In this connection one particular activity organized by the Centre is the elaboration of international standards for both financial and non-financial accounting and reporting by TNCs. A high-level group of experts is formulating a list of minimum items and their definitions which could be included in corporation reports. A tentative list of items is currently being given a dry run by some corporations on a confidential and experimental basis.

**Problem-Oriented Studies**

The research work carried out by the Centre is influenced by the observation that in many areas the existing knowledge is too fragmentary or simply insufficient to allow an objective and helpful analysis of matters related to TNCs. This particularly concerns the policies and impacts of TNCs in developing countries. Therefore, a whole range of studies has been initiated on the economic, legal, social, and political impacts of TNCs both on specific sectors, such as banking and pharmaceuticals, and on more general problems such as balances of payments of developing countries.

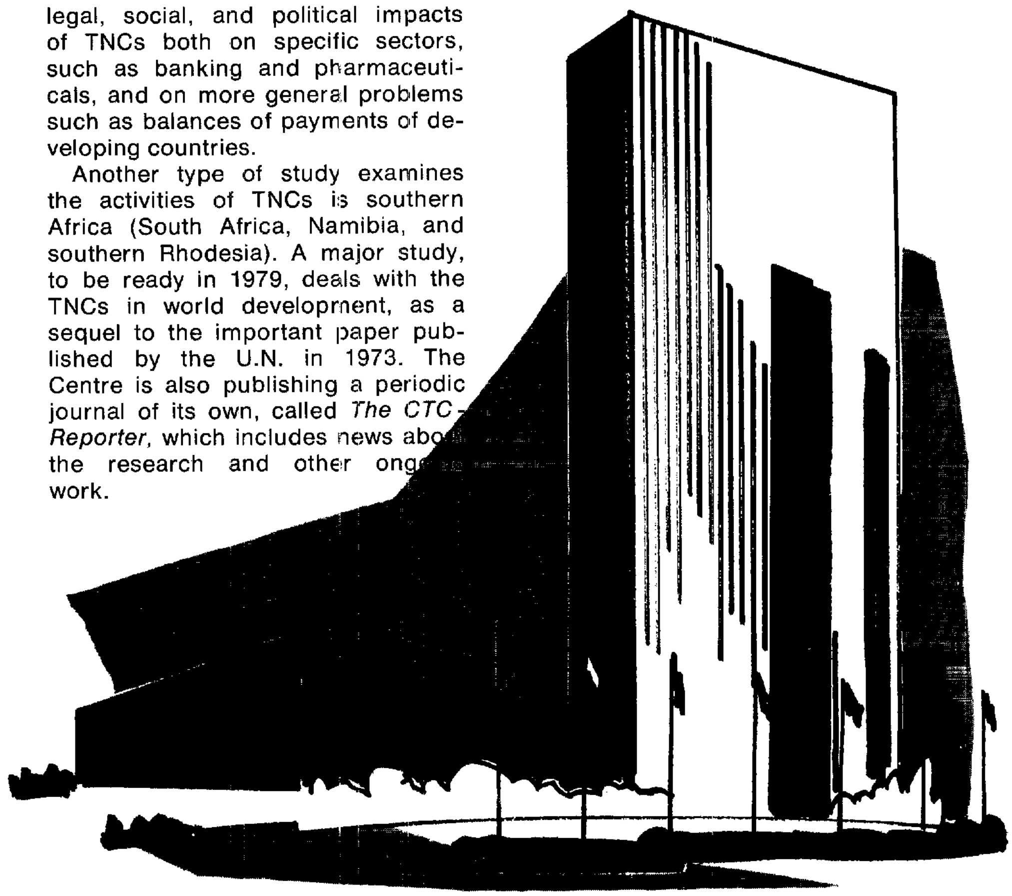
Another type of study examines the activities of TNCs is southern Africa (South Africa, Namibia, and southern Rhodesia). A major study, to be ready in 1979, deals with the TNCs in world development, as a sequel to the important paper published by the U.N. in 1973. The Centre is also publishing a periodic journal of its own, called *The CTC Reporter,* which includes news about the research and other ongoing work.

**Technical Cooperation Program**

Importance is also attached to an effective technical cooperation program aimed at strengthening the negotiating capability of the developing countries. One main activity consists in providing advisory services to requesting governments.

Another approach in this field consists in making available to requesting governments rosters of qualified international experts whom they may wish to hire on their own.

Furthermore, the Centre organizes training workshops and seminars to train officials or managers from developing countries. Finally, it responds to inquiries from governments for specific information related to TNCs, such as concrete experiences of other governments and information on particular TNCs. The whole technical assistance program rests on the conviction that effective and informed negotiators on both sides of the table can reduce significantly the areas of contention and work out durable solutions which are in the long-term interests of all. ■



# INTERDEPENDENCE AND NEW RESPONSIBILITIES

*by Emile van Lennep*

**Urging OECD nations and international corporations to work to make economic interdependence a positive force, OECD Secretary General van Lennep stresses that:**

- **The main challenge today is to develop the necessary means for managing interdependence.**
- **Governments of the industrialized nations must work for a harmonious and orderly evolution of the world economy.**
- **Cooperative efforts have already occurred in the areas of trade, investment, energy, policies of expansion, monetary policy, food, agriculture, and raw materials.**
- **The need is for promoting "an agreed framework and new rules to maximize the advantages of international corporate activity and to minimize abuse."**

Recent economic history is partly the story of balancing vulnerability with interdependence. The accelerated pace of international economic relations increases the dangers of this balancing act.

Relationships among factors of production, interest groups, nations, and even regions have taken on new aspects. Different links and ties are being forged within the dynamics of the world economy. International transmission mechanisms function more effectively than ever. But with this progress, distortions and disturbances are magnified, and their ill effects are spread through an osmosis-like process in a much wider manner than before. The increase of total global wealth obtained through a generally liberal trade and payments system coincides with conditions of instability, and the world is said to feel "the far-reaching effects" of "growing economic interdependence."

It becomes obvious that new shock absorbers are needed alongside these new dynamics. Firm policy action, cooperation, and even concentration are required if interdependence is to mean global progress—and not increased reciprocal vulnerability.

### Responsibilities of the Industrialized World

The major challenge today is to develop the necessary means for managing interdependence. The objective of the 24-nation Organization for Economic Cooperation and Development (OECD) is to bring about a harmonious and orderly evolution of the world economy both among members and with others. To this end, they must take action to prevent the dislocation and disruption which can only lead to the collapse of world economic security and retard the more equitable distribution of wealth.

The path to be followed is not an easy one. It will involve contingency planning, both medium- and long-term. It will require day-to-day as well as more far-reaching decision-making and taking. While closer cooperation among themselves by OECD governments in managing their internal economic relations is important, these countries cannot lose sight of the wider perspective of global interrelationships, both with the developing countries and the centrally planned economies. The overriding point is that these links and ties will be ever more closely intermeshed. Each group will have to assume its share of the burden and bear its responsibilities, and OECD countries—being the most prosperous—will of necessity have to carry their share.

The instruments are objective expert analyses, exchanges of views, consultations, and, where possible, joint political commitments—binding, pragmatic, but also flexible enough to meet the needs of rapidly changing circumstances. The nature and origin of these commitments vary; they can be based on:

- A joint, deep-rooted faith in the virtues of open market-oriented economic systems, overseen and at times supplemented by democratic governments "intervening" to prevent the abuse of economic power and to reconcile the efficacy of market mechanisms with principles of equity and social justice.
- The conviction that the results achieved through international specialization and the free international flow of goods and capital are important factors contributing to the growth of member countries' economies and advancing the living standards of their peoples.
- The recognition that member countries have special responsibilities to assist developing countries in achieving satisfactory development levels and meeting essential human needs.

### Action-Oriented Strategy

The action of OECD governments to date has sought to reduce vulnerability and to make increased interdependence a beneficial force in a generally market-oriented world economy with greater opportunities for the economic development and growth of rich and poor alike. They have endeavored through the mechanism of international trade and investments to increase the scope for entrepreneurial initiative in order to achieve an increasingly effective development of the world's unused intellectual and material potential.

EMILE VAN LENNEP, a native of the Netherlands, is Secretary General of the 24-nation Organization for Economic Cooperation and Development (OECD). Before assuming this position in 1969, Mr. van Lennep was the Treasurer General in the Netherlands Ministry of Finance for 18 years. His experiences in international finance include the Chairmanship of the Monetary Committee of the EEC, the Chairmanship of Working Party No. 3 of the OECD's Economic Policy Committee, and participation on the Development Assistance Committee of the OECD.

They have thus jointly devised an action-oriented global strategy for non-inflationary growth and economic development. The main elements of their strategy are:

- To ensure free trade and investment.
- To improve the trade and investment climate.
- To achieve sustained expansion in the industrialized countries.
- To promote better payments equilibrium and greater monetary stability.
- To enhance world economic security with regard to supplies of food, energy, and raw materials.
- To provide conditions of cooperation that will help developing countries share increasingly in the benefits of economic progress.

Here are some examples of this strategy:

*The Trade Pledge.* In the critical period following the autumn of 1973, when OECD member countries were beginning to feel the pinch of increasingly cumbersome balance of payments difficulties, consensus was reached among member governments to abstain from resorting to restrictive trade measures to alleviate these problems in the form of a Trade Pledge.

At a time when the appeal of protectionist "beggar thy neighbor" policies was perhaps the greatest since the world economic crisis of the 1930's, the Trade Pledge was indeed no mean achievement in avoiding distortions in trade relations. Its far-reaching impact can be observed in the maintenance of the buoyancy of world trade in such a critical period. That the Trade Pledge is still in force today after the world economy has undergone the worst recession in the post-war period, and that the open trading system has weathered the crises by and large unscathed, underlines the wisdom of this joint effort.

*International Energy Agency.* Another such development is the evolution, in the aftermath of the 1973 energy crisis, of the International Energy Agency (IEA) within the framework of the OECD. The task of the IEA is to find the right sort of response to the existing and prospective problems of energy demand and supply, both for member countries and the world at large. While present consumption patterns still augur serious shortages of future international energy supplies, the policies devised within the IEA, based on a more realistic assessment of the prevailing circumstances, should result in the improvement of long-term prospects for managing both depletable and durable world energy resources to the benefit of both consumers and producers.

*Medium-Term Economic Policy Outline.* The OECD countries have also undertaken intensive consultations to improve the prospects for non-inflationary economic growth. They have reached agreement on a policy outline aimed at eradicating inflation, achieving sustained expansion at moderate levels, and restoring satisfactory employment levels in the OECD area. It was interesting to see that with a variety of political complexions and different immediate policy preoccupations, the OECD governments could agree on such a policy outline regardless of its sometimes unpopular implications for short-term domestic policies.

*Financial Support Fund.* Another main element in the overall joint strategy of OECD governments is their effort to reduce serious payments disequilibria among member countries. It is indispensable for governments of member countries with weaker economies to pursue determined monetary and other policies aimed at reducing levels of inflation and stabilizing their exchange rates. These stabilization policies, if successful, will not only serve the countries concerned but also the international community; while inability to control continuing monetary disturbances would, no doubt, undermine both the recovery of demand and any progress made against inflation.

Accordingly, in the wake of the oil crisis, a Financial Support Fund was negotiated in the OECD to provide a $25 billion last-resort borrowing facility as a "safety net" for members to use to overcome transitional difficulties.

As balance of payments problems have reached—and for some time will continue to have—unprecedented dimensions, they have become particularly pressing for a large number of member countries. An early completion of still-pending formalities by other members, such as the United States, would therefore be a welcome development that would remove the remaining procedural difficulties and enable the setting up of the Fund as a key instrument increasing the credibility of the cooperative OECD efforts in this field.

*Food, Agriculture and Raw Materials.* A better balance of food supply and demand in world markets is a constant problem, not only within OECD but also in various other international forums, including the World Food Council and the U.N. Food and Agriculture Organization (FAO). OECD member governments' announced pledges for the establishment of the International Fund for Agricultural Development give evidence of their determination to foster the expansion of agricultural production in developing countries. They are well aware of the dangers inherent in the low level of world grain reserves, the acute problems caused by serious drought conditions in large regions, and the dependence of the developing countries on primary commodity exports for their economic progress.

Fundamental changes have occurred in the economic and political situation which have made it obvious that a smooth flow of commodity supplies to all consuming countries, developing and industrialized, is important to a better management of the world economy.

### Management of Interdependence and the International Corporation

The international corporation finds itself in the center of the efficient management of world economic interdependence. Better utilization of productive resources, improvement of efficiency, and the dissemination of technology are among the positive aspects of the activities of multinational enterprises. They create new jobs, increase the occupational skills of the local labor force, and improve industrial structures. However, these international activities also involve new consumption patterns, new import needs, different resource exploitation and depletion approaches, intricate industrial relations and employment attitudes.

As with every facet of interdependence, increased importance in international corporate activity brings forward new issues in economic power relationships and increases the complexities of the economic phenomenon. Therefore, the need is to provide an agreed framework and new rules to maximize the advantages of international corporate activity and to minimize the abuse that may result from the freedom of choice presenting itself to corporations active under often divergent jurisdictions, or within a vacuum where no jurisdiction exists.

OECD governments have been conscious of these problems and have provided terms of reference for corporate behavior as a first step in this field. They set out their understanding of governmental responsibilities towards international investment and corporations in a Declaration of 21st of June 1976 and, at the same time, established voluntary guidelines for corporate activity in the form of standards for proper business practices. The initial reaction of the business world to the enunciation of this joint philosophy and common approach has already given evidence that transnational corporations are aware of these new facets of their responsibility.

### Development Cooperation

At this point special mention has to be made of a most important relationship in terms of the balance between increased interdependence and vulnerability: *development cooperation.*

Developing countries have participated in the intensified economic, financial, and trading relationships that have characterized the world economy during the past decade. Many have been able to seize the opportunities offered to increase their exports, to tap financial markets, and to gain access to investment, technology, and expertise.

One of the essential elements of improved North-South relations will be to provide conditions conducive to increased economic activity between industrialized and developing countries in the framework of a well-managed open and dynamic world economy.

In practical terms, this will depend to a considerable extent on the ability of the industrialized countries to accept a rapidly increasing flow of imports of manufactured products from the developing countries. This process has already begun and has helped a growing number of middle-income developing countries successfully across the take-off point, launching them on the path to rapid industrial and economic development. Indeed, it is evident that the necessary supply potential exists in many developing countries for substantial and continuing increases in their exports to the industrialized countries, particularly if the latter fully live up to the principles of free trade which they defend and do not succumb to protectionist pressures from certain sectors of their economies.

International economic cooperation with developing countries must be viewed increasingly in the perspective of world economic interdependence and joint responsibilities.

Since a large and growing part of the substantial increases in financial and technological resource transfers required must come from private sources, appropriate conditions must be created, by both the industrial and the developing countries, to provide economic incentives and ensure effective operating conditions for private investment, as well as an equitable distribution of the benefits. Policies of industrial countries which facilitate access to their markets and structural adaptations in patterns of production and employment in favor of developing countries must be matched by trade policies on the part of the latter based on mutually agreed rules.

### Special Attention to Developing Countries

Developing countries will benefit from improved management of the world economy. However, since the market system does not by itself produce a socially acceptable distribution of wealth and income (either domestically or internationally), there is an essential need for positive action to cope with the special problems of the developing countries. The objectives must be to promote balanced economic growth for the developing countries, to help provide for the basic needs of their people, to enhance their economic security, and to strengthen their real economic capacity to participate as genuinely equal partners in an open world economy. This implies special measures for compensating handicaps and reinforcing their economic potential.

More positive and direct approaches to development cooperation must realistically take into account the diversities in economic and social conditions and development prospects among developing countries—diversities which are widening.

Deliberate policy action is required—specifically designed to help developing countries to ensure that all sectors of their population participate in the process of economic growth and its benefits. In particular, conscious policies are required which increase the productivity and welfare of the poorest. This fundamental aim should be a guiding principle in all areas of development cooperation policies.

Public support for development assistance rests substantially on its unique role in reaching the least privileged people of the world. A longer-term programming approach by the international community is essential for countries in the hard-core poverty regions. For the least-developed countries, crossing the threshold of effective development requires that they adopt policies and reforms which will mesh with firmer indications of what aid donors are prepared to do in support of such key objectives as food self-sufficiency, adequate regional transportation systems, and education and health facilities which assure increased productivity.

The essence of interdependence and better management of the world economic system can be succinctly defined as a two-pronged challenge: On the one hand, to better cooperate and to coordinate the response and action among OECD countries; and, on the other, to establish a modus vivendi with developing countries which will permit continued growth of the world economy while at the same time providing for greater equity and justice. ■

# CONDUCT, CODES AND GUIDELINES

## Opportunities for Mutual Action by Government and Business Leaders in 1977

*by Lee L. Morgan*

**Mr. Morgan emphasizes the urgent necessity for multinational corporations to articulate and comply with high ethical standards. Mr. Morgan notes that one way to do this is through adherence to codes; he affirms that:**

- **Codes for corporate conduct are inevitable and, in a context of current events, are a justifiable public expectation and demand.**
- **The OECD "Guidelines for Multinational Enterprises" are the most significant code-drafting endeavor to date.**
- **Individual companies and business associations should give positive support to these Guidelines, "square" their operations against them, and report compliance.**
- **The OECD Guidelines are fair, requiring responsible and constructive conduct not only of business but also of governments.**

The quality of corporate citizenship affects, and will increasingly affect, the way major world business issues are resolved. Therefore, whether we in the business community like it or not, corporate conduct ranks high on the list of issues that we must increasingly come to grips with in 1977.

It follows (again, whether we like it or not) that the drafting of codes and other guidelines for business conduct will also be of high priority.

Of course, this whole question of conduct and codes might not have come upon us so rapidly in the last few years if it had not been for the undeniable fact of business misdeeds. For example, over 200 companies have now admitted making bribes or other questionable payments abroad. The number of these incidents isn't large enough to be called "typical." But it isn't small enough to be called "rare."

So it can fairly be said that a part of the reason for making a tighter harness is that the horse has sometimes not behaved as well as he might have.

But there is also another, more inevitable reason why code-drafting is so much in fashion: international business has become a larger factor in a smaller world—an increasingly interdependent world, at once enlarged in terms of people and activity but reduced in terms of communication and travel time.

Free private enterprise has never meant license to operate without limitations set by citizens, through their governments, any more than owning a car gives us license to run it as fast as we please.

LEE L. MORGAN is President, Chief Operating Officer, and a Director of Caterpillar Tractor Co. During more than 30 years with this multinational organization, Mr. Morgan has served as a district representative, managed a variety of marketing activities and been Vice President in charge of the Company's Industrial Division. His professional affiliations include: Director of the U.S. Chamber of Commerce, 3M Company, The First Chicago Corporation, and Vice Chairman of the Advisory Council on Japan-U.S. Economic Relations.



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If you drive your car in open country, you are subject to far fewer traffic restraints than in the middle of a crowded city, where you are prey to stoplights, no-parking signs, one-way streets, pollution ordinances, and maybe a traffic cop on every corner.

As this planet heads toward six billion population at the end of this century; as we reckon distances in mach II speeds; as the actions of countries become more interdependent; and, finally, as MNCs continue their successful attempts to design, manufacture, and sell products and services on a global basis, there are going to be more "traffic cops" on the business road.

### Codes of Conduct

Morality is the nucleus of effective management. Ethical considerations should sit at the table of every business decision. And business operations ought to be at an ethical level well above the floor set by the law.

But the trend toward greater business regulation (of which codes and guidelines are a part) is a force that predated revelations of international business scandals. This trend would have occurred without them.

Thus, we need codes that speak not only to ethics, but also to information disclosure, competition, technology transfer, employment practices, and other factors especially those involving relationships and obligations to host communities and countries.

One manifestation of the rising interest in international business is the study of the multinational corporation. About 100 significant studies are under way, mainly by governments, associations, and academic groups. But today, the most pervasive and contemporary evidence of public and governmental concern is the rise in code-drafting activities.

The U.N. Centre on Transnational Corporations, under the directorship of Klaus Sahlgren, has set a code of conduct as its first priority. And the United Nations Conference on Trade and Development (UNCTAD) is considering a code of conduct for technology transfer.

A joint committee representing the European Parliament and the U.S. Congress has begun work on a code of conduct for MNCs. An advisory group of the International Labor Organization has urged it to draw up a code of principles regarding MNC activities.

### OECD Guidelines Significant

But of greatest significance to MNCs, to date, is the "Guidelines for Multinational Enterprises," an annex to the "Declaration on International Investment and Multinational Enterprises" of the Organization for Economic Cooperation and Development (OECD). Headquartered in Paris, the 24-member OECD is one of the most respected international organizations.

The OECD Guidelines are historic because they represent the first attempt by an international governmental body to write an international code of behavior for business. They are the result of some 18 months of dialogue and drafting, in which not only government but also labor and business played a creative role.

As chairman of a U.S. Business and Industry Advisory Committee on the subject, I can confirm that business was invited to take part, and it did. It is to the everlasting credit of the OECD and of the U.S. State Department that opinions of business firms were sought, considered, and in a good many cases incorporated into the final document.

The result is not perfection.

But among many good things, the Guidelines do recognize beneficial activities and impacts of MNCs. They do apply to nationally owned as well as privately owned enterprises. They do create a voluntary set of principles upon which to build sound international economic relations, rather than being a stifling set of legal do's and don'ts.

But their voluntary quality doesn't mean they lack force. The fact that they were agreed to by 23 of the 24 OECD countries is indicative of their momentum. And it is noteworthy that when the Japanese Government recently announced its intention to scrutinize several hundred of its MNCs, it selected the OECD Guidelines as the template for that inquiry.

In the United States, the Secretaries of State, Treasury, and Commerce have sent letters to chief executives of 800 U.S. MNCs, endorsing the Guidelines and recommending corporate observance of them.

### OECD Guidelines and Caterpillar

Speaking for Caterpillar: We are now in the process of "squaring" our operations against the Guidelines. We want to determine how each provision could affect Caterpillar and whether our operating procedures

and practices should be changed as a result.

For example, we have recently completed exploring recommendations that MNCs more effectively disclose information about their international operations. We do agree that companies like ours should find reasonable ways to help the public better understand their operations. Disclosure is a form of regulation, granted, but it is the best form. This does not mean that companies should give away information of competitive value. But it does suggest we should take a fresh look at whether today's changed business climate calls for even more reporting.

In further pursuit of the Guidelines, we are reviewing portions relating to science and technology. This is an area where there is great misunderstanding. Developing countries rightly perceive that technology is a major means by which they can be brought into position to help themselves—which is the real key to development. But there is disagreement as to what technology is and how it is transferred.

Technology is often viewed by developing countries as only blueprints or processing formulas, which they assert are transferred at too great a price, particularly since sometimes they contain technology held to be "obsolete," or technology deemed "too advanced" to be compatible with host country needs.

But technology ought to be viewed through a much wider lens. It is essentially knowledge or know-how. In our business, for example, it includes what we know about marketing and product support, just as much as it includes what we know about product design and manufacturing.

**Support for OECD Guidelines Essential**

The OECD Guidelines are targeted for review by member countries in 1979. At that time, after a three-year trial period, the question is certain to be asked: How effective have the Guidelines been?

It is important that individual companies and business associations give positive support to the Guidelines, bringing their operations within that framework and reporting compliance to the extent it is practical.

It seems axiomatic that the more the world business community voluntarily does in this respect, the less likely it is to be subjected to stifling, misdirected, mandatory regulation.

Finally, the OECD Guidelines have the virtue of fairness in that they speak not only to the responsibilities and actions of business firms, but also to the responsibilities and actions of governments. For example, they ask governments not to seek payoffs and illegal contributions, just as they ask companies to shun such practices. And they request governments to treat MNCs no less favorably than they treat their own local enterprises.

This is a matter of very great moment. Any worthwhile relationship requires mutuality of commitment. That is true of marriage, of company-dealer relationships, and of the relationship between a company and a country.

**Caterpillar's Code**

At Caterpillar, we seek friendly, cooperative relationships with governments. We are willing to make some substantial commitments in terms of capital and of operating principles. These principles are spelled out in the *Caterpillar Code of Worldwide Business Conduct,* published more than two years ago (October 1974).

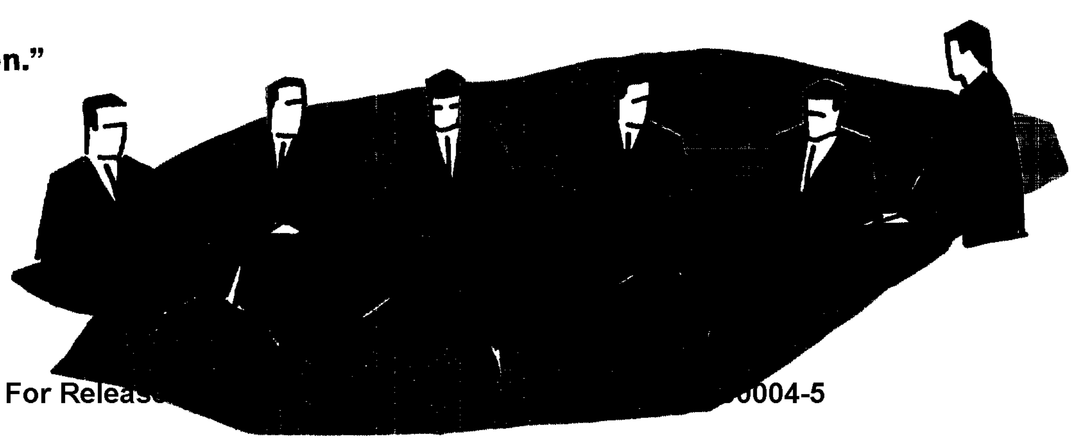
In this Code, in pursuit of this factor of mutuality, we also ask some things from host governments: provision of a climate conducive to business growth and success; avoidance of discrimination against us as "foreigners"; and fair treatment of the rights and properties of others.

We at Caterpillar are enough convinced of the inevitability of the code and guidelines process, and enough satisfied with the impact of our own Code on our own organization, that we plan to expand, update, and reissue it in 1977.

**Optimism and a New Economic Order**

I tend to be optimistic about the long-range future of MNCs. While the people of this earth are divided in many ways, they are united in their desire for a higher standard of living in a climate of peace and freedom. And we have a great deal to contribute toward that goal. These days, much of the language of government, especially in the developing countries, speaks yearningly of a "new international economic order." I don't find those words unattractive. I believe we in business can share in the hope that things can be better and in a vision of what they *can* be. In short, I believe our companies can contribute mightily to that new order. ■

**"Morality is the nucleus of effective management. Ethical considerations should sit at the table of every business decision."**



# The Transnational Corporation:

# Between Ideology and Interdependence

by William F. May

**Interdependence presumes a serious effort by the international corporation and sovereign nations to work beyond philosophical differences and to build "a groundwork on which an interdependent economy can function." In Mr. May's view:**

- **A new corporate presence can bring fresh opportunities for diversity, opening new realms of creativity, expression, and experience.**
- **Corporations are pragmatic, adjusting their style and structure to local conditions across the globe.**
- **Business is needed—now more than ever before—as a means of creating employment, organizing capital, improving technology, and encouraging human inventiveness.**
- **The very survival of billions of people depends upon making "the most effective use of our available resources."**

Ours is an age of sweeping pronouncements. Not so long ago, we were warned that an America ripe for "greening" was held fast by "future shock." More recently observers informed us that we were on the automated threshold of a "post-industrial" future. So it is hardly surprising that corporations engaging in overseas activities have become a focus for philosophical analysis.

According to Daniel Patrick Moynihan, the multinational or transnational may well be "the most creative international institution of the twentieth century." That is a very flattering description, and from a quintessential public man. Robert Heilbroner, writing from another side of the spectrum, wonders whether such corporations will become the "replacement for the nation-state as the chief organizing structure of the future." As the sun sets on Sweden and Spain and Senegal, will we discover the international corporation rising in their stead?

My own inclinations are more modest. For one thing, I tend to steer clear of theoretical formulations for events still in their early stages of development. More importantly, a consistent theory can ignore facts that would not fit into its system.

Actually, I am not even sure that my own company should accept either the "transnational" or "multinational" label. We are probably more "trans" than "multi," but essentially we are firmly based in this country, with our stockholders, directors, executives, and employees composed mainly of U.S. citizens. Of course we have overseas operations, as do many other American-based corporations. However, "American" still seems appropriate for our name, allowing for certain overtones of chauvinism. (Indeed, so far as I know no one has proposed changing our name to "Transnational Can.")

As will become apparent, I have reached some tentative conclusions on the general theme of interdependence. Even so, these thoughts should be taken as the products of our international experience, not articles of economic dogma. Moreover, I have chosen to examine some selected aspects of the international corporate scene which have tended to be overlooked in general treatments of the subject. If I omit certain obvious topics, it is because they have adequate coverage elsewhere. Finally, some of my observations may wear a certain surface simplicity. I have generally found that a few unadorned truths go a long way, especially in an age of overwrought phrasing.

#### International Activities

American Can has affiliates, subsidiaries, and licensees in 28 foreign countries. We set up these operations in the expectation of adding to our earnings, a goal that has largely been gratified. At the same time, we only go into another country if we feel the circumstances will be hospitable. Put very simply, this is 1977. We cannot force ourselves in where we are not wanted; nor do we seek to impose terms solely of our choosing. (And, may I add, we cannot send for the Seventh Fleet or the 82nd Airborne if events take an unpleasant turning.)

Whether our host is Mexico or France, or Israel or Brazil, it seems clear we have something to offer. In particular, we bring in new technol-

WILLIAM F. MAY is Chairman and Chief Executive Officer of the American Can Company. Over his nearly 40-year association with American Can, Mr. May has witnessed the company's emergence as one of the world's most prominent diversified businesses. Serving on numerous committees encompassing religious, educational, cultural, and social service interests, Mr. May is also a member of the Board of Directors of the Bankers Trust Company, the Johns-Manville Corporation, and *The New York Times*.

ogies and modes of management which amplify the existing resources of a country. Our very presence in Colombia or Venezuela, for example, helps increase per capita income in those countries. (As also happens to be the case in Coweta County, Georgia, and Linn County, Oregon.)

Moreover, technology is not merely a matter of machines; nor is management simply supervision. What we bring goes a great deal deeper. Rather than unsettling established traditions, a new corporate presence can reveal to people traits and talents they never knew they had. This has been America's own tradition. It counterpoints, not counteracts, local customs. An expanded economy brings new opportunities for diversity, opening unknown realms of expression and experience. This was superbly stated by Alexander Hamilton, first Secretary of the Treasury, in his *Report on Manufactures,* submitted in 1791 to the Congress of a developing nation:

"The minds of the strongest and most active powers fall below mediocrity and labor without effect if confined to uncongenial pursuits. And it is thence to be inferred that the results of human exertion may be immensely increased when each individual can find his proper element and can call into activity the whole vigor of his nature. . . . To cherish and stimulate the activity of the human mind, by multiplying the objects of enterprise, is not among the least considerable of the expedients by which the wealth of a nation may be promoted."

Others will expound on such subjects as "social responsibility" and "economic development," areas I agree deserve attention. What I would stress is that far from imposing a sterile uniformity, our international activities, along with those of other companies, in fact "cherish and stimulate the activity of the human mind." By showing real respect for human intellect and imagination, we are helping build a groundwork on which an interdependent economy can function. As the globe grows crowded, and nature's resources diminish, we will all need all the wits we can muster.

**Overcoming Political Obstacles**

However, we are far from having arrived at that goal. Indeed, in all too many corners of the world, ideology and emotion hold sway. This is especially the case with newer and younger countries trying to establish their identities in as short a time as possible. National pride looms large, often spurred by leaders who profit from such surges. Thus relations between nations become charged with ideology, turning the simplest of economic transactions into intricate matters of statecraft. Dealings between two countries can involve endless rounds of conferences, delayed and even disrupted by political obstacles at home.

Here international corporations play a role. I will not say we have always been as consummately creative as Senator Moynihan suggests. Nor, on the matter raised by Professor Heilbroner, do I think we will be replacing nation-states in any foreseeable future. However, it remains the case that while countries acknowledge their dependence on one another, national pride can become a barrier to straightforward solutions.

Governments themselves understand this. They appreciate the imperatives of an international economy; they realize where their own interests lie. It is in this context that corporations fill a vital need. Operating for specific economic purposes, and unburdened by ideological constraints, business enterprises can devise arrangements which work to the benefit of varying parties.

I do not mean to suggest that international corporations are totally free-floating entities, carrying full-blown powers. Privileges of that sort have long since disappeared. Even so, the normal conduct of corporate business links the interests of sovereign nations in many fruitful ways. Further, we have reason to believe that this "by-product" of business activity is one that our host countries sincerely welcome. While we need freedom to operate effectively, they benefit from our less formalized approach to transactions.

**Pragmatism vs. Ideology**

Corporations are pragmatic organizations, adjusting their style and structure to local conditions across the globe. No enterprise worth its name can afford the luxury of an unyielding dogma. Yet, as indicated earlier, we live in an ideological age. Nor do all these outpourings arise from nationalism. Other doctrines have a "transnational" hue of their own and appear in many settings simultaneously. One such doctrine affecting the international corporation is "co-determination." In various parts of Europe, workers have representation on the boards of business corporations. In some countries the representatives are union officials; in others, they come directly from the ranks. A well-run business always welcomes input from its employees. This can be especially valuable if it is a true relationship between management and labor, when both sides know the problems and practices of the industry.

The difficulty is that something called "co-determination" can become an ideology with extrinsic motives of its own. Instead of actual workers' representatives, we may face professional spokesmen who have doctrinal axes to grind. A corporation cannot survive in such circumstances, particularly if every decision concerning finance or production or marketing degenerates into a dispute over economic philosophies.

American Can's experience has

World Bank Photo/G. F. Atkinson Co.

**"An expanded economy brings new opportunities for diversity, opening unknown realms of expression and experience."**

been that everyone benefits in what I might call "an atmosphere of believability." I think we have achieved this between management and labor, by honestly giving out information and soliciting the views of everyone on our payroll. We would hope to achieve such an atmosphere in our overseas operations as well. I would simply note that adaptation should be a two-way street. We can and will adjust to a diversity of customs and cultures. At the same time, if a corporate enterprise is to fill the needs for which it is intended, it cannot be made a vehicle for abstract ideas. Let me emphasize that I am not opposed to "co-determination" of some sort in principle. But I worry about intentions which are not always explicitly stated.

Transnational corporations are part of the world we inhabit. Many are large, wealthy, and—let us be honest—ambitious. Yet the role we play always rests on the willingness of sovereign nations to have us work within their borders. Let us also be frank in admitting that we need more planning in an interdependent world economy, and that transnationals have something to contribute here. For example, we are vitally concerned about the conservation and recovery of resources, an endeavor calling for participation by many affected parties, including leaders from business, government, and other spheres of national and international life.

On the other hand, attempts to plan *entire* economies usually end with autocratic and cumbersome bureaucracies, serving no one except the officials who misrun them. So, again, we must be pragmatic. Perhaps the best place for coordination to begin is by reviewing alternatives, priorities, and trade-offs both within and among nations.

If I can end on a seemingly immodest note, may I say that the business corporation is needed, now more than ever before. As a means of creating employment and organizing capital, or improving technology and encouraging human inventiveness, we have a track record second to none. But we can only continue to carry out these missions if we are permitted to do what we do best.

This globe of ours contains billions of people whose very survival depends on the most effective use of our available resources, not the least of which are the minds and spirits of the individuals themselves. The transnational corporation acknowledges its share in these major responsibilities. It wants to be part of the future. A world attentive to its enlightened self-interest would give its business sector that encouragement. ■

# BUSINESS AND CONGRESS

## The Need for Better Communication

*by Raymond H. Herzog*

**Mr. Herzog describes the contributions of 3M West Germany to both the United States and West Germany. Such case examples, he feels:**

- **Should be cited by U.S. business leaders in communicating their views to Congress.**
- **Can be helpful in encouraging constructive Congressional policies and actions.**
- **Demonstrate clearly how international trade and investment benefit all participants—including host and home nations.**
- **Show how the world economic system actually operates "to elevate the living standards of people in this interdependent universe."**

How can business leaders do a better job in explaining to Congress and to the American people that U.S. investment abroad is good for the United States?

In the past many of us have tried. We have pointed to the overall performance of U.S. investment abroad and described the activities of our individual companies. I believe we can do better. The facts about the multinational corporation are not widely understood.

There is no question about the facts:

- Foreign investment has brought billions of tax dollars into the U.S. Treasury.
- Substantial amounts of remitted profits have been reinvested in U.S. industry.
- Exports have been stimulated to the extent that one-third of U.S. exports are shipped to the foreign subsidiaries of American companies.
- Growing numbers of jobs dependent upon investment abroad have been created in all 50 states.

Yet Congress continues to view the performance of the main conduits of foreign investment—multinational corporations—with skepticism. For this state of affairs, business must blame itself for not communicating effectively. Painful as it is, facts must be faced if we, as businessmen, are to encourage constructive Congressional policies and actions.

Much of the Congressional debate about such matters as the Arab boycott and questionable foreign payments, for example, indicts the multinationals unfairly, for in most cases these business organizations have been victims caught in the crossfires of national governments or are the reluctant subjects of extortion.

Even in cases where it has been demonstrated that an abuse (according to U.S. standards) has been committed by a business organization, the fact is not communicated that such behavior is not typical of *all* business organizations or perhaps even of *that* one. Instead the public is led to believe that questionable behavior is typical of all multinational corporations.

How else can we interpret a recent public opinion poll which found that 77.1 percent of the American people think that overseas payoffs and domestic handouts are widespread, while only 7.4 percent think that such activity is *not* widespread? (15.6 percent had "no opinion.")

Yet, as important as public opinion is, and as powerful as the statements of some members of Congress are in influencing public opinion, it should be pointed out that what is really important to our economic future is the kind of actions that Congress takes.

### Congressional Attitudes and Trends

The current 95th Congress is virtually the same as the previous Congress since 85 percent of House incumbents were returned to office, and two-thirds of the Senate did not have to stand for re-election. So in projecting the legislative trends, and in examining our own responsibility to influence constructively future events, it is useful to examine the attitudes and actions of the 94th Congress.

For the leaders of multinational business, these legislative trends are apparent:

1. Many members seem desirous

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of *removing all incentives for doing business abroad.* Already Congress has cut DISC (Domestic International Sales Corporations) benefits to about one-third to one-half of their former size. A number of other investment incentives have been removed, including Western Hemisphere Trade Corporations and China Act Trade Corporations. Now bills have been introduced in the new Congress to eliminate DISC completely and abolish deferral provisions on foreign taxes.

Few Congressmen argue against the concept of "neutrality" of tax policy in terms of foreign investments. The main issue stems from individual interpretation of what constitutes tax incentives. Thus some Congressmen describe tax credits as incentives for foreign investment, while most businessmen argue that the credits are instruments of tax neutrality since the credits are necessary to prevent double taxation.

2. Congress, in the wake of questionable payments disclosures, is likely to *call for more disclosure.* The purpose will be not merely to uncover wrongdoing, but to satisfy bureaucratic appetites for more financial data concerning virtually every aspect of international business. Because much of the government does not understand the competitive workings of business, the understandable reaction of executive branch personnel and Congressional staffers alike is to call for increased disclosure.

One argument does seem to put disclosure requests in perspective: government people, when it is pointed out to them, seem impressed by the fact that disclosure is a "tax" on business for which the government receives no revenue.

3. Congress increasingly seems disposed to *impose criminal penalties* on certain illegal actions of business that previously were not subject to them. This trend can be expected to continue in terms of legislation dealing with questionable payments and foreign boycotts.

4. Congress can be expected to continue to try to *legislate desirable behavior* or to encourage international bodies to negotiate codes of conduct for international business.

5. In the past year there has been an increasing trend to *seek protection from imports.* Thus far, most of these efforts have focused on the executive branch, but if history repeats itself, Congress can be expected to consider "quota" bills and other trade barriers.

Examining those five main Congressional attitudes and trends, business leaders of multinational corporations can gain valuable insight into how Congress perceives the realities of international trade and investment on a conceptual level. Congress, for example:

- Demonstrates a willingness to pass legislation espoused by domestic constituencies without taking into consideration the consequences abroad—in terms of other countries, the ability of U.S. companies to compete in markets abroad, and the boomeranging effects on the U.S. economy.
- Seems to ignore the fact that the universe of multinational competition includes much more than the MNCs that are based in the United States. American MNCs have competitors in virtually every market where products are sold at a profit. The competitors are not just foreign-based MNCs but companies existing wholly within a particular nation's border receiving a variety of incentives provided by *their* governments.
- Does not seem to recognize the crucial fact that economic independence is not possible in an interdependent world. Currently Congress can assess the return of foreign investment to the United States in terms of hard tax dollars; but, unlike its predecessors following World War II and on into the 1960's, it often does not seem to perceive the wider implications of foreign investment, including national security, access to foreign raw materials, creation of foreign customers for U.S. exports, and the desirability of freely exchanging technology across national borders.

### Response to Hartke-Burke

In the months following introduction of the Hartke-Burke Bill in September 1971, the U.S. business community generally succeeded in communicating important facts concerning world trade to political leaders.

Thus, it was possible to show that foreign investment was not exporting U.S. jobs, as some labor leaders had claimed, but rather that it was creating jobs in the United States by creating export markets. It was also possible to show that U.S. companies were not running away to low-wage countries, by simply pointing out that 80 percent of U.S. foreign direct investment is in industrialized countries where wages are relatively high.

These and other facts proved useful in rebutting the Hartke-Burke proposal. Now, however, as recent Congressional trends seem to indicate, we need to be communicating with Congress more deeply on a *conceptual* rather than a *factual* level.

Multinational business needs antidotes for false assumptions based upon falsely held concepts of how the practical world of multinational business really operates.

### All Participants Winners

Perhaps the most erroneous concept behind Congressional legislation relates to the discipline imposed upon *all* participants in international trade and investment. That is, there simply will be no international trade and investment unless *all* the participants can be winners—home countries, host countries, corporations, employees, shareholders, customers, and suppliers. For, without all the above participants, no enterprise could survive for long—no matter what the political soil or how well endowed the country in terms of resources.

It follows that if the United States is desirous of reaping the rewards from taking part in an economically interdependent world, receiving the taxes that flow from foreign investment, engaging in export markets, receiving technology and creating jobs, it should promote the kind of climate that will permit all the participants in trade and investment to enjoy the status of being winners in the world economy. Conversely, it should forsake actions that would render any of the participants losers in world trade.

How can this concept be promoted?

Not with surveys, facts, and figures that generalize about the entire world economic system, multinational companies, home and host countries. . .

But by actual case histories, where

it can be demonstrated how the system works to the betterment of the participants. Using this approach, it is absolutely necessary that it be pointed out that while the mix of benefits which arise from the relationship does differ for each of the participants, they are significant and substantial enough for each so that there is incentive to continue the relationship. The "mix" includes tax revenues, capital investment, jobs, transfer of technology, access to markets and supplies, and goods and services.

Recently 3M's subsidiary in West Germany celebrated its 25th anniversary. Let me use its experience to illustrate the benefits to all participants.

**Benefits to Host Country**

Over those 25 years the subsidiary has paid approximately 50 percent of profits in taxes, and has followed the practice of repatriating approximately 25 percent for U.S. shareholders and reinvesting about 25 percent in the enterprise.

It is not unusual for an MNC in a growth industry to plow back profits in the countries where it operates—to start by making a relatively small initial investment and then building the resulting enterprise with reinvested earnings.

In the case of 3M West Germany, the outflow from the United States in terms of investment was $6.9 million. Over the years this investment has returned $96.4 million to the United States where it has been double-taxed first as corporate profits and then as taxes paid by shareholders.

At the same time West Germany has benefited greatly from the investment because substantial portions of earnings have been reinvested there. Today, expressed in dollars, the assets of 3M West Germany are approximately $126 million, and those assets employ approximately 3,100 people.

3M companies around the world have contributed technology to West Germany just as 3M West Germany has contributed technology to other 3M companies around the world. The main flow of technology, however, has been from the United States to West Germany.

Not all the benefits can be measured with numbers, however. When, for example, 3M established a plant in Kamen, an economically depressed area, it of course hired some of the unemployed. One of these, a former coal miner, rose in the ranks to managerial status and was able to send his children to a university. He was one of many whose lives were changed as a result of 3M's presence. How can you measure that? Or how can you measure the effects of those dollars of the payroll magnified six to eight times as it travels through the community in terms of what it did for people?

**Benefits to U.S.**

What has the U.S. economy received in return? Profits to reinvest in the U.S. economy and to be spent by shareholders, and access to a growing export market. 3M West Germany, for example, does not make a full line of 3M products; it fills out its product lines mainly with exports from the United States. In 1974, before the recent recession, these exports amounted to $21 million. In 1976, the exports had fallen to approximately $9 million—all of which underscores the interdependence of the U.S. and West German economies.

In examining the 25-year history of 3M West Germany, it can be categorically stated that not one U.S. dollar was invested there because of low wage rates. The real reasons why 3M invested there and expanded production facilities there reflect tariff and non-tariff barriers. Also 3M could not have been able to compete with other West German competitors and expand markets, if it were not on the scene to service customers quickly and effectively.

Additionally, the West German market required products that were not manufactured in the United States. For example, German auto manufacturers use different types of abrasives because they finish their automobiles differently. U.S.-built copy machines could not compete in the West German market, not just because of a 10.4 percent tariff but because electrical current in Europe is 220V-50 cycle rather than 110V-60 cycle as it is in the United States.

3M would have preferred to service West Germany with U.S. exports, avoiding setting up shop in a strange territory where there are differences in such factors as language, customs, packing, and weights and measures. But this was not possible, given the competitive situation. Instead, 3M's enterprise in West Germany was set up in such a way that all the participants in the enterprise including home and host countries could emerge as economic winners.

The United States received a fair share of tax dollars, given the size of the investment. A large amount of the profits generated by the West German subsidiary were reinvested in the West German economy. The flow of technology and exports was encouraged substantially—to the benefit of both countries.

As business leaders, we should recognize that what Congress needs is more, not less, information from business—information that provides more understanding of business. This will not come about through the forced disclosure of bits and pieces of unrelated facts and figures. But it can be accomplished through the voluntary sharing by multinational business units of information that shows how they actually operate in the world economic system to elevate the living standards of people in this interdependent universe. ■

**"... there simply will be no international trade and investment unless *all* the participants can be winners— home countries, host countries, corporations, employees, shareholders, customers, and suppliers."**

# Coca-Cola:

# Case Study in International Development

*by J. Paul Austin*

**Recognizing the realities of today's interdependence, Mr. Austin affirms that:**

- **Because the world's resources are finite, all nations must work to achieve the most rational possible distribution.**
- **International business complements governmental efforts to effect equitable resource distribution.**
- **Since technology is a continuing process, rather than a neat one-time package, the transfer of technology requires a continuing relationship among trading partners.**
- **Investors from developed nations can strive for a transfer of technology that enables local industries to multiply their own capabilities.**

While much may be hoped for in a future era from space exploration and development, the world in which we live and work is finite. Its resources are finite. Even renewable resources, such as food and timber, have limits to their potential. In this environment, I see no way for any nation to cut itself off from the effort to achieve, and to assist others to achieve, the most rational and equitable distribution and use of these resources.

An interdependence of nations must exist and thrive in a finite world. But, for all practical purposes, how we manage the world—politically, socially, and economically—involves an infinite variety of alternatives. I submit that international business and trade constitute a respectable proportion of these alternatives.

With very few exceptions, no country has taken the firm view that it will close its borders to trade. However, nations tend to group themselves into politically integrated organizations to reconcile different points of view, different political or philosophical doctrines with regard to commercial interdependence, and to develop viable internal economic units.

Behind, or underlying, most of these groupings is the effort to establish the conditions for mutually beneficial international trade. The issue involved in establishing these conditions is not trade itself, but the terms of trade.

I do not believe business can fairly be regarded as inimical to or inconsistent with the efforts of these political groupings. On the contrary, I believe that international business complements these efforts and is the very matrix, offering the best chance of success.

For one thing, the function of business is to get together two parties, each of whom has something to gain from the bargaining process. If the two parties are in two different countries, and one has expertise, the other a raw material, then we have one of the most potent rationales for the dialogue between or among nations, because each side to the bargain benefits. Therefore, nations should be negotiating the best political conditions for that trade.

Doubtless this could be open to criticism by developing nations. But, again, the criticism would be based


Courtesy of The Coca-Cola Company

on the terms, not the fact, of trade. And it can be answered, at least in part, with the soft drink industry as an example.

**Local Industry "Partners"**

It is well known that The Coca-Cola Company has been a pioneer in many countries outside the United States. To emphasize the essential nature of the soft drink industry system and that of The Coca-Cola Company in particular, we do not manufacture and distribute the final beverage ourselves in most cases. Too few people comprehend this; but the fact is that our product is, in a real sense, a *local* product. The bottler is a local national, allied to us by contract only. He invests his capital; his employees are locally employed; he uses his knowledge of the marketplace. We provide the bottler with three things: a universally known trademark, the concentrate that makes the beverage unique, and expertise.

The system truly is symbiotic and synergistic because the system uses the best elements of both sides. The local "partner" has a better chance to develop the market he knows so well; and we have a better chance to assist him in that development because we can devote our major efforts to training his personnel and devising methods to fine tune the various steps of manufacture and marketing.

Over the years, we have been instrumental, for example, in instituting quality standards that have guaranteed sanitary products in many countries around the world. We have also introduced programs which trained literally thousands of local mechanics, engineers, salesmen, accountants, and managers. To this day, we send our experts all over the world to assist in designing plants, training personnel, reviewing quality control, production, and marketing procedures. And the flow is both ways. Every year, middle and upper management come from all continents to participate in advanced training programs.

Our assistance is offered not merely to our independent bottlers, but also to suppliers. Our personnel are experts in their respective fields and are available to work with suppliers, crown and bottle manufacturers, cooler manufacturers, producers of dispensing equipment,

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and related manufacturers and services.

The development of a local soft drink industry in many countries has triggered the creation of a whole supply infrastructure—glass, tinplate, trucks, and truck bodies. We do not invest in these industries, but it is fair to say that it is the soft drink industry that in many cases has made the existence of support industries viable.

### Transfer of Technology

A seemingly magic term these days is "transfer of technology." Technology is not a one-time thing—a neat package that, once transferred, enables local industry to create products fully competitive on the world market.

Instead, technology is a continuing process. Like most other companies of any consequence, we maintain research components in numerous countries, which are continually devising new products, methods and techniques. These are shared with our independent bottlers and with suppliers. When one is dealing with a mass-manufactured, low-cost, low-priced item like a soft drink, each fraction of a penny or peso or yen saved is a cardinal element in the bottler's annual profit column. So we are always looking for ways and means to improve production and distribution efficiency and to reduce costs.

### Advantages to Host Country

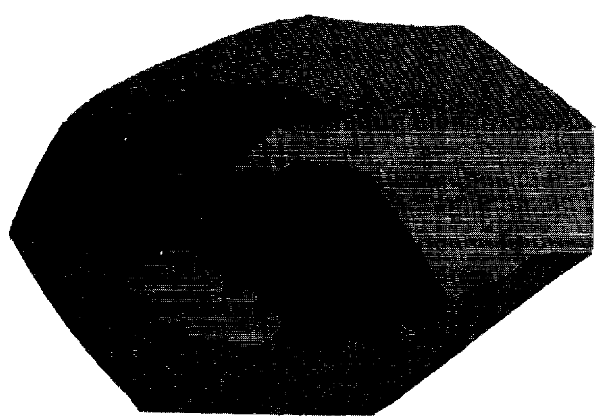
Why should any nation welcome a foreign product like a soft drink? How does this fit into a well-defined set of national priorities?

Some of the advantages accruing to such a nation are: local investment, which in turn helps to create local capital; contribution to the national tax base; the development of a body of local skilled workmen; the creation of satellite industries; and access to a continuing flow of technology. It is demonstrable that without our contribution to the local soft drink industry, there would be fewer jobs, fewer trained personnel, a slackening of quality control, a steady deterioration of machinery and equipment, and a smaller tax base. We have a valid function to perform, and I believe the results have proven this.

In summary, the soft drink industry seems to be an ideal illustration of the function international business in general can fulfill in the interdependence of nations. The Coca-Cola Company and its bottlers each depend upon the other. It continues to be a fruitful partnership, with substantial benefits for both sides.

There is no question that nations around the world have a vital function to fulfill in fostering this interdependence. However, the reduction of international difficulties is a precondition of successful commerce. We must all welcome the concerted efforts among nations to create and maintain an ongoing atmosphere where borders are at least potentially open. ■

**". . . the function of business is to get together two parties, each of whom has something to gain from the bargaining process."**



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# NEW INTERNATIONAL

# FACT or FAIRY TALE?

*by Peter G. Peterson*

**In this article, Mr. Peterson reassesses the U.S. role in a New International Economic Order and calls for greater responsibility by the LDCs in the successful fulfillment of this global economic plan. Points:**

- **There are compelling economic and political reasons for making interdependence work.**
- **Needed is a comprehensive strategy toward developing nations which rethinks current foreign aid efforts.**
- **A new imperative is "helping developing countries help themselves."**
- **The U.S. must lead in a multilateral effort "in which rights are paired with responsibilities; in which neither benefits nor violations are costless."**

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# ECONOMIC ORDER

Even with presumably committed cognoscenti, such as the readers of this publication, I would say the New International Economic Order is, in the Nixon Administration's contribution to aphorisms, a MEGO subject, i.e., "My Eyes Glaze Over."

We shouldn't be surprised. This country has vast constituencies whose views, largely unformed, are eminently *un*global. To the extent that their eyes did not glaze over, their eyebrows would certainly rise if they were to read our latest proposals to the U.N., at Nairobi, in Paris or wherever. But these proposals exist in a domestic political fairyland—where if most Americans were to read them, they would react with emotions ranging between apathy and hostility.

We seem to be seeking an effect through optical illusion; as though we can do big things with mirrors. Many of our proposals have little active support, either from the Congress or the public.

**How Did We Get Here?**

We exhibit a nostaligia for an America that can never exist again—a nostalgia that expresses itself in bluster and Tarzan-like breast-pounding.

Up to now in American politics, including 1976, those who have gained have too often been politicians who played to the primordial chauvinism in us. Everyone knows how this game is played. One defines an enemy; if it is a foreign enemy, so much the better, because a) it doesn't vote; b) it is not lovable; c) if it is a small nation so much the better since there is little serious risk. "They" are the ones who have created our problems. Never mind that "they"—for example OPEC—may be central to a solution to the problem such as their helping finance balooning oil-induced deficits of the less developed world.

As far as U.S. policy toward the developing nations is concerned, we have, with varying degrees of commitment, tried to come to grips with the problem for the last quarter century. It has been a period of excessive rhetoric in which economists and politicians alike have sloganized with more assurance than the facts permitted.

The developing nations have increasingly developed a sense of common purpose. Moving toward industrialization, the oil exporters, the raw material suppliers, and the stagnating poor have stuck together in ways that seem to us irrational. Their image is that the rich countries have managed to avoid the agonies of economic adjustment by transferring them to the world's poor; as for OPEC, it has struck a mighty blow for all of the non-white, non-Northern, ex-colonial peoples of the world.

Led by the more activist states such as Algeria—through the mechanism of the General Assembly—they stridently invoked their demands, i.e., "retribution," "compensation," "sovereignty."

These pronouncements contained an implicit and irksome asymmetry, since they assigned the duties to the industrialized nations while the Third World acquired the rights. "Redistribution" as "compensation" for alleged "exploitation" under colonialism was scarcely a convincing argument to use with the United States which was never a colonial power—except very briefly and expensively—and which left its colonial possessions richer than it found them.

"Quick-fix" redistribution by transferring substantial resources to countries incapable of efficient production would hardly bring about sustained development. It has also been suggested that the West was developing a "global social conscience."

What evidence there might be for such assertions has never been disclosed. Certainly, there seems little possibility that either the Congress or the parliaments of any of the other major industrialized countries would be prepared to go down the road of redistribution on any such flimsy justification.

**Needed: A Rationale—
Why Should We Care?**

One can start, of course, with a negative rationale—why we dare not ignore the plight of the poor countries. A world containing billions of underfed, unhappy people and unprecedented amounts of sophisticated weaponry could scarcely be politically or economically stable.

*Economic Interdependence—What It Means to Us.* It was Adlai Stevenson who said that at the very least to describe our predicament we needed some new cliches.

We have found a rather colorless one—"interdependence." The root of interdependence is "dependence," and that, in fact, is the condition that we and the rest of the world find ourselves in. And this includes *us.*

Even in our resource-rich country, we are now importing over two-thirds of our requirements of seven major minerals: bauxite, chromium, cobalt, manganese, nickel, tin, and tungsten. We are now importing over 30 percent of 13 out of 15 major raw materials.

U.S. exports to non-oil exporting, less developed countries offer a startling picture. As a group and led by Latin America, they have become bigger buyers of American goods than the European Community, Canada or Japan . . . in fact, about as big as Europe and Japan combined. Thus, about 40 percent of our imports and exports involve the less developed countries.

On the financial side, the external debt of the less developed countries probably hit about $160 billion by the end of last year or about double what it was only a few years ago. Meanwhile, our U.S. banks have been so busy doing business in the developing world that by the end of 1975, about $30 billion was owed to them. By the end of 1976, it was clearly higher. Thus, they have an increasing, if nervous stake in the viability of these economies.

*Political Interdependence.* We should remember we are in better shape than Moscow to deal with the Third World. We have an enormous comparative advantage in our political system, our managerial resources, as well as the technology we can transfer. Our markets are far more important to the Third World than any markets in Eastern Europe.

The major trading nations of Europe and Japan compete vigorously with us in the Third World; we have a good deal to lose by adding a West-West conflict to the North-South conflict.

It is not overselling the political benefits to remind ourselves of the political problems in which the developing countries are central—nuclear proliferation, terrorism, hijacking, narcotics traffic and the Law of the Sea. An unhelpful attitude can certainly infect political issues like the Middle East and Africa.

### Needed: A Comprehensive, Integrated Strategy

The old idea that aid is the answer is no good at all. We are at present still the world's largest donor of official aid to the poorer nations—but in terms of relative effort (compared with our GNP), the United States, at .25 percent of our GNP, stands near the bottom among the industrialized countries of the West. If all the other stragglers among the rich countries met the "agreed" .9 percent "goal," aid would move up from about $12 billion to a little over $20 billion. Since the combined payments deficits of all the non-oil developing nations together currently amount to around $35 billion each year, we can see that doubling or tripling aid would still not even finance their payment deficits—even if such a level of aid would be provided and assimilated.

Because our Third World programs were dominated by development specialists who oversold us "their thing," our leaders fell into the trap of overstating the potential of our foreign assistance efforts. The result was disenchantment on all sides.

One of the results of compartmentalization, this over-speculation, is the "more of everything" approach. But more of everything is not only inefficient, it is not a credible strategy.

There are tradeoffs everywhere. The more open to imports the developed countries markets are, the less capital transfers to developed countries will need to be. And, what are the effects on "them" and "us" of lowering of trade barriers? And how do these effects compare with more aid?

What we need is an integrated strategy and a consolidated budget.

### Needed: Reciprocal Commitments

We must, in my view, signal to the Third World countries that the United States and other industrialized nations are willing to act generously. But this time with a strong sense of realism, we must stipulate a willingness to *act only if there is a reciprocal commitment on the part of the Third World countries to take essential measures to make that aid effective and to direct it to those who most need it.* In any viable New International Economic Order, helping developing countries help themselves is more than an old cliche, it is a new imperative.

It is natural for the developing countries to exaggerate the role of the rich nations. For example, while the multinationals are the easy and natural target of the world's hostility, they are also presented politically as the main force of economic activity in the LDCs. Yet, some estimates suggest that the multinationals probably provide only 1 percent of the jobs in the LDCs . . . well over 9 out of 10 jobs will rely on economic activity generated *within* the country.

To succeed, a New Domestic Economic Order within the developing countries should include the following:

1. *A major commitment to expand their own food production.* There cannot be a New International Economic Order without a massive increase in food, for unless people are fed, there will be no order at all. Still, at the present time, according to the World Bank, these poorest countries invest only 3 percent of their GNP, which represents only 18 percent of their total investment, in agriculture.

2. *A more sustained effort to moderate population growth.* The World Bank estimates that the developing countries spend less than $100 million in population planning!

Population in the aggregate may not be the most serious problem; even more critical is the moving of the median age progressively toward the lower end of the age spectrum.

3. *A much more effective distribution of income and social services to the poor.* It is simply not politically acceptable for development assistance to be skimmed off and go to the "coffers of the rich." In particular, if agriculture really is to move, and the pressure on cities reduced, distribution to the rural poor must have a major priority.

4. *An increase in their internal rate of savings and capital investment.* We seem to forget that over 80 percent of the capital formation in these countries comes from internal savings and only about 20 percent from transfer from developed countries.

Internal investment will have to continue to be a primary responsibility for development. But it is usually grossly inadequate in less developed countries. The kind of increase in domestic investment that is required will in turn require major changes in their domestic economic policies, and in particular their taxation policies.

### Needed: A Symmetrical Multilateral System

We must lead in the development of a truly New International Economic Order in which no one nation unilaterally can write or rewrite the rules; in which rights are paired with responsibilities; in which neither benefits nor violations are costless.

I believe these benefits and sanctions are more likely to be judiciously, gracefully and effectively applied in a multilateral framework. In this kind of system we would all sign a new kind of multilateral contract covering the full scope of our economic relations. I will do this, if you do that. Not only will both be expected to follow the rules—each nation will also be equally liable to *penalties* if unilateral action breaks the new contract.

The rules must apply to us as well, or there is no basis for a deal. That means that we must foreswear unilateral action—no more export controls on our own, be it soybeans or anything else. The rules for imports and for exports must be made symmetrical, however difficult that may be.

What we cannot have in this kind of international economic system is unilateralism—on their part or ours.

Much of what I suggest is vastly easier to advocate than to achieve. As we have learned from sad experience, weak governments in Third World countries find it hard to resist the compulsion to respond to donor countries' suggestions with nationalistic, demagogic actions. That is a political fact of life we dare not ignore.

Still, I must persist in my simple theme: If the New International Economic Order is to become a durable fact of our economic, political life rather than an occasional visit to a diplomatic and rhetorical fairyland, it will be essential to persuade the American people that this New Order is much more likely to succeed because reasonable, effective terms are being set as one of the conditions for our aid. ■

**"There cannot be a New International Economic Order without a massive increase in food, for unless people are fed, there will be no order at all."**

Courtesy of International Harvester

IMDI

The INTERNATIONAL MANAGEMENT AND DEVELOPMENT INSTITUTE (IMDI) is a nonprofit, educational institute headquartered in Washington, D.C. Its prime purpose is to strengthen corporate management teams internationally through executive seminars, management training, strategic planning, government-business programs, and publishing efforts on the international corporation.

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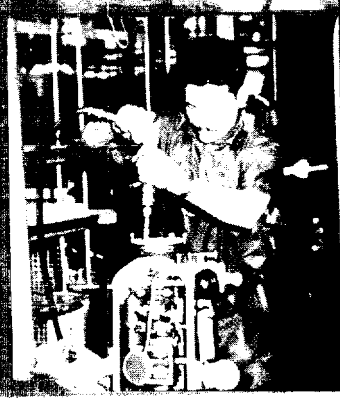

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*"Our age will be remembered . . .
because it is the first generation since
the dawn of history in which man dared
to believe it practical to make the
benefits of civilization available
to the whole human race."*

**—Arnold Toynbee**